PHILIP MORRIS

MANA

BRIEFIN

ANNUAL SHARE

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BREIFING BOOK

ANNUAL MEETING 1994

I. BUSINESS ISSUES

Beer Operations
Financial Service Operations
Food Operations
General Operations
Tobacco Operations
Last Minute Q&A's

II. SHAREHOLDER ISSUES

Acquisitions and Divestitures
Advertising and Promotion
Communications
Contributions
Corporate Governance
Environment
Executive Compensation
Health
Human Resources
Labeling
Legislation
Litigation
Lobbying
Restructuring
Stock Matters
Taxation
Trade
1993 Annual Meeting Q&A's

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BUSINESS STATISTICS - 1993

Operating revenue: $60.9 billion
Operating companies income: $9.3 billion
Net earnings per share: reported - $3.52
on-going - $4.58
Market price of common share: high $78.75, low $45.00
Closing price of common share year-end: $55.625

Contribution to PM total revenues and operating income:

(Operating Income numbers exclude adoption of SFAS #112)

1993	Revenues (%)	Operating Income (%)
Food	50%	38%
Tobacco	42%	55%
Beer	7%	4%
Capital Corp	1%	3%

PM USA	op. revenues: $10.2 billion, down 14.8% over prior year op. cos. income: $2.8 billion, down 46.0% unit sales: 194.7 billion (industry 461.1) share of U.S. market: 42% (34% in 1983)
PM International:	op. revenues: $15.7 billion, up 15.2% op. cos. income: $2.4 billion, up 17.0% unit sales: 459.7 billion, up 9.2% exports: 114.4 billion units
N. America Food:	op. revenues: $20.9 billion, up 3.0% op. cos. income: $2.4 billion, up 10.5%
International Food:	op. revenues: $9.4 billion, up 8.1% op. cos. income: $1.1 billion, up 4.1%
Beer:	op. revenues: $4.2 billion, up 4.5% op. cos. income: $358 million, up 37.7% share of U.S. market: 22%
PM Capital Corp & Mission Viejo:	op. revenues: $402 million op. cos. income: $250 million

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GENERAL STATISTICS - 1993

	Amount
Advertising	$2.4 billion
Annual Meeting	$2 million
Annual Report	$2.80 per copy (print run of 1.2 million)
Audit Fees	$11.2 million (estimated, actual available in August)
Contributions	$55.5 million (philanthropic)
Corporate Aircraft	$28 million
Legal Fees	$113,030,521 worldwide outside counsel
R&D	$421 million

	Number
Corporate Aircraft*	11
Employees	173,224 worldwide
Board of Directors trips	4
Officers & execs, women worldwide	41 of 418 total
Officers & execs, minority "	33 " " "
Executives 18+	34 women (8.5%), 33 minority (8.3%) of 400 total

*Corporate Aircraft are:

2 Gulf Stream 4
1 Falcon 50
7 Hawker 125-800
1 Sikorsky S-76 Helicopter

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BEER OPERATIONS

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BEER OPERATIONS

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BEER OPERATIONS

– MAD
– AIM
– TIPS
– Responsible Drinking activities.

RESPONSIBLE DRINKING

1. What's Miller's position on responsible drinking?
   - It is never OK to drive drunk or with ability impaired.

2. What is Miller doing in the area of responsible drinking?
   - AIM (Alcohol Information from Miller), designed to promote responsible drinking. AIM includes TIPS (Training for Intervention Procedures by Servers of Alcohol) for bartenders, liquor store clerks, and vendors, which is designed to teach responsible selling and serving.
   - Responsible Event Plan, a manual for anyone planning a large party, picnic, or festival. The plan addresses what do to prevent underage drinking.
   - Media campaign including TV commercials and print ads reinforcing the message "Think When You Drink."

3. Is the industry effective in communicating its responsible drinking message?
   - Government studies indicate that there have been consistent declines in alcohol-related fatalities in the past 10 years, and cases of liver cirrhosis (a measure of alcohol abuse) have been declining significantly in the past 20 years.
   - Designated driver programs are used by about 2/3 of adults.

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4. Why the stepped up concern by the brewing industry about responsible drinking?

- Responsible drinking has been promoted for decades.
- Due to the efforts of groups like MADD and SADD, society's awareness of the problem of drunk driving has never been as great.
- The brewing industry has taken the lead in promoting server training and designated driver programs.

DRUNK DRIVING

5. Isn't the brewing industry to blame when accidents are alcohol-related?

- It's a mistake to blame "the product" for alcohol abuse.
- Individual drinkers are responsible for their behavior.

6. What is the brewing industry doing to support alcohol education programs to reduce drunk driving?

- Brewers are members of the National Commission Against Drunk Driving.
- Brewers support the US Department of Transportation "Buckle Up" campaign.
- Brewers support designated driver and free cab ride home programs.
- In the past 10 years, alcohol-related traffic fatalities have consistently gone down.

7. What's the brewing industry's answer to victims of drunk drivers?

- It's tragic.
- We support strict enforcement of existing drunk driver laws.

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8. What's your stance on drinking and driving? Can you still consume a beer and drive safely?

- Average adult beer consumer can have a beer and drive safely.
- Most states consider it a crime to drive with a blood alcohol content of at least .10%.
- Problem drinkers who have been arrested as drunk drivers have on average a BAC of .17%.

BLOOD ALCOHOL CONTENT

9. Will the company support a proposed national goal of a uniform state blood alcohol content (BAC) standard of .08%?

- No. Most states have a blood alcohol content level of .10% because at that level of blood alcohol content, most people are impaired.
- The average drunk driver has a blood alcohol content level of .17%.
- Ten states have lowered the blood alcohol content level to .08%, but have no evidence that this has led to less drunk driving.
- 3 of the 5 states which reduced their BAC limits to .08% by the end of 1991 have experienced less success in solving the problem of drunk driving than the nation as a whole:
  - — **California**: Reduced BAC in 1990. The following year, the death rate for persons with BAC's over .15% increased. There was no change in the number of alcohol-related crashes.
  - — **Oregon:** Reduced BAC in 1983. In 1991, the state still had more alcohol-related fatalities per vehicle mile than the nation as a whole.
  - — **Maine:** Lowered BAC in 1988. Number of alcohol-related fatalities per vehicle miles rose between 1989 and 1990.

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- Two nationwide studies of adult motorists showed that lowering BAC levels had little or no impact on drunk driving deaths. Lower BAC levels was the least effective of several strategies to reduce drunk driving. A combination of stiffer penalties for drivers with higher BAC would be a far more effective deterrent. (Dr. David Moore, University of New Hampshire)

ALCOHOL CONTENT LABELING

10. What is your position on alcohol content labeling?

- Last year the courts lifted a long standing ban on alcohol content labeling.
- Alcohol content may now be placed on labels at the option of the individual states. We would prefer uniformity among the states' requirements.

MODERATE DRINKING

11. Will the company adopt the definition of moderate drinking used by the federal government in its "Dietary Guidelines for Americans" and use this in their public service announcements about moderate, responsible drinking?

- No. It is between an individual and their physician to determine what is moderate consumption based on biological and other data, such as health, weight, height, gender, food consumed, time lapsed, etc.

BEER AND ILLICIT DRUGS

12. Is beer a drug?

- Technically, yes. But while a "drug" is anything that can change the way our mind or body works, a person can legally and safely consume a can of beer without these altering affects.

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13. How do you respond to someone who links beer with illicit drugs?

- The main difference is that the vast majority of adults can legally and safely consume a can of beer and not change the way their mind or body works.
- No long-term negative effects for the majority of adults who drink beer, as long as they do so responsibly. In contrast, very small amounts of illicit substances affect you quickly and drastically.

14. Do you advertise and promote alcohol during spring break?

- We advertise and promote in licensed premises attended by adults over 21 in spring break markets.
- We discourage those who are not 21 with print ads like "Good beer is properly aged, you should be too" and "If you're under 21, don't even think about it."

UNDERAGE

15. How do you respond to criticisms that Miller's commercials appeal to underage people?

- Miller's policy requires actors in our commercials be at least 25.

16. Isn't Miller promoting its products to an underage consumer through its sponsorships of National College Athletic Association (NCAA) games?

- No. The viewer profile of college athletics is essentially the same as that of professional sports. The vast majority of viewers are of legal drinking age or older (approx. 70%).

17. Do your distributors sponsor college events and advertise on college sports events?

- Some of our distributors have sponsorship programs with colleges in their markets with the approval of the school's administration.

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SPORTS MARKETING

18. What is the nature and extent of Miller's sponsorship of professional team sports?

- Miller is an official sponsor of both the National Football League and the National Basketball Association. The NFL and NBA sponsorships allow us to use official league and team logos on a variety of marketing materials.
- We also conduct several promotional programs - NBA All Star balloting and NBA draft and NFL Player of the Year - in conjunction with these sponsorships.

19. In addition to your league sponsorships, does Miller work directly with individual professional teams? What's the nature of these relationships?

- We have sponsorships with individual NBA, NHL, NFL and major league baseball teams.
- Sponsorships can include print and broadcast advertising, in-stadium or arena signage, team identified point-of-sale materials and the opportunity to participate in special promotions geared for adult fans.

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20. Describe your network sports broadcasts advertising program.

- We currently have advertising arrangements with NBC for their NBA telecasts and with ABC for NFL telecasts.
- We advertise on ESPN's major league baseball and NHL telecasts.
- We advertise on ABC's coverage of the Indianapolis 500, on selected network and cable NASCAR and IndyCar broadcasts, and on network coverage of Pro-Beach Volleyball.
- We advertise on ESPN's telecasts of NCAA, football, and basketball games, as well as on Sportcenter.
- Advertise on ABC's PGA coverage of the Milwaukee Open.

21. Describe Miller's involvement in motorsports.

- Miller sponsors cars and races on the IndyCar and NASCAR circuits supported by advertising and promotional programs.

22. Some critics have been very critical of beer company sponsorship of motorsports—that such sponsorships target the undereducated and underaged consumer. What is your reaction to these criticisms?

- Our involvement in motorsports is designed to increase brand awareness among people, legal drinking age and older, who already have made the decision to drink beer.

23. Don't you consider Rusty Wallace and Bobby Rahal active athletes who endorse your products?

- We sponsor the respective racing teams for whom Rusty and Bobby drive.
- These drivers do not endorse our products.

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24. What other sports is Miller involved in?

- Association of Volleyball Professionals pro beach volleyball circuit
- Pro Mogul skiing team
- Mexican National Soccer team
- Amateur bowling tournaments for adults conducted by the Bowling Proprietors Association of America
- We also sponsor the PGA Tour and two professional golfers through our non-alcohol brew, Sharp's.

25. Miller Lite commercials popularized the use of professional athletes in advertising. How do you respond to criticism about the appropriateness of using athletes in beer commercials?

- The Miller Lite All Star campaign featured ex-professional athletes as well as other celebrities.
- We currently use Larry Bird and Pat Riley to help us convey our "Think When You Drink" messages to a broad audience.

ICE BEER

26. We've read about a possible BATF investigation regarding marketing practices associated with ice beers. Is Miller affected by this?

- Miller markets its ice beers in a responsible fashion and is in full compliance with all regulatory requirements.
- BATF regulations prohibit the marketing of beer on the basis of alcohol content.
- While the BATF regulation explicitly allows the depiction of an approved label with a statement of alcohol content, we have decided not to feature in our advertising the government-approved labels which depict the alcohol content.

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27. Are you allowed to sell ice beers in Alabama and Mississippi?

- Yes. We are in complete compliance with the statutes in every state where ICEHOUSE is sold.
- Alabama and Mississippi are the only states limiting alcohol content in beer to 5% by volume and 4% by weight.

LEINENKUGEL

28. What about Leinenkugel's?

- Leinenkugel's has been brewed in northern Wisconsin since 1867.
- Brands are sold in 14 states and D.C., with core markets in the upper Midwest.
- Four brands are available year-round, with two seasonal beers – Leinenkugel's Bock and Leinenkugel's Winter Lager.
- We recently introduced Leinenkugel's Red Lager. Consumer demand has fueled $3.5 million brewery expansion that will increase capacity 56% by September 1994.
- Retail sales increased by 15.3% in 1993.
- Market shares in key Minneapolis markets grew to 3.2% from 2.8%.
- Volume grew 10.1% in core markets during 1993.
- <u>Leinenkugel's Brands:</u>
  - Leinenkugel's Original Premium
  - " Light
  - " Limited
  - " Red Lager
  - " Genuine Bock
  - " Winter Lager
  - Leinie's Ice (in test)

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NON-ALCOHOL SEGMENT

29. Please give an assessment of the non-alcohol brew segment of your industry.

- The segment grew 11% last year to an estimated 2.6 million barrels domestically accounting for just under 2% of industry volume.
- Miller Sharp's was introduced in 1989, and has a 20% share of the non-alcohol segment.

INTERNATIONAL MARKET

30. Is there an increased interest in the international beer market by Miller?

- Our products now marketed in more than 75 countries, through exporting, exclusive partnerships and joint ventures.
- Increasing our global presence by new associate sponsorship of Team Lotus Formula One racing team and advertising buy on CNN's Latin American Network.

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FINANCIAL SERVICES

PHILIP MORRIS CAPITAL CORPORATION

1. What is the status of the payment of the legal fees relating to the aborted Los Angeles Library investment?

(U)
- To date no payment has been made by the City.
- City agreed to pay all of PMCC's legal expenses if the transaction failed. No limit was discussed and PMCC was not advised that the City Council had approved only $240,000 for legal expenses.
- Mayor's office approved an additional $50,000 in fees to pursue the deal after the first "No" vote.
- Legal bills totaled $562,496, but an 18% reduction was negotiated.
- City Council voted April 13 to implement a three week extension to allow for an audit review.

MISSION VIEJO COMPANY

2. Why is PM, a consumer products company, in the real estate business?
   - PM diversified into real estate in 1970. The company has changed since then. We are now managing our way out of the real estate business.
   - MVC has been profitable every year.

3. Why is your real estate division within PM Capital Corporation?
   - PMCC can provide financing for homeowner loans and land purchases even in a difficult lending environment.

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4. Is PM planning to divest Mission Viejo?

- Yes, but we are completing current projects, and we are not investing in new land acquisitions. The land owned in our planned communities is expected to be sold to residential and commercial developers over the next ten years.

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FOOD OPERATIONS

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FOOD OPERATIONS

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FOOD OPERATIONS

RETAIL CHEESE DIVISION

1. Does Kraft have a monopoly in the US cheese market?
   - No. Kraft has less than a 20% share of the 6 billion pounds of cheese sold in the total US market each year.
   - Kraft has a 43.2% share of scanned product that is found primarily in the dairy case.
   - In the retail segment, which includes scanned product as well as deli case sales, Kraft has a 31% share.
   - [Note: Industry composition is 38% retail, 39% foodservice, 18% industrial, 5% government.]

2. Has Kraft successfully launched any new cheese products in the last year? What types of new cheese products will Kraft pursue in the future?
   - We introduced:
     - Fat Free Philadelphia Brand Cream Cheese
     - Handi-Snacks Cheese and Breadsticks, and Cheese and Pretzels
     - Cheez Whiz Squeeze
     - new fat free slice flavors
     - Grated Cheese innovative container
     - entire line of 50% reduced fat products under the Kraft Healthy Favorites brand name.

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- New cheeses focused on particular usages to make them convenient:
  - Velveeta Italian
  - Kraft Naturals Pizza Shreds
  - Cheez Whiz Cheez 'N Salsa
  - Convenient packaging

FAT FREE PRODUCTS

3. What is Kraft's strategy with respect to Fat Free Cheese products?
   - We market Light and Lower Fat versions of our key brands. (Kraft Light Naturals, Cracker Barrel Light, Philly Light Cream Cheese products, Kraft Light Singles and Velveeta Light.)

4. Why doesn't KGF/PM introduce more fat free products?
   - Technology hurdle. Significant work must be done to make certain the product performs.
   - Taste
   - Labeling rules may limit our ability to identify the product as a fat free version.

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CHEESE/DAIRY PRICING

5. Do we expect cheese commodity costs to fall or rise dramatically? What is our long term outlook?

   - Cannot predict the supply and demand for cheese due to the uncertainty of key market variables such as:
     - weather
     - dairy herd size, and
     - pattern of government intervention.

FARM LEGISLATION - DAIRY PRICE SUPPORTS

6. What is KGF's position regarding milk price supports?

   - We support reliance on the free market to determine supplies and prices of milk.
   - If government intervention is necessary, targeted income support without control on production may be appropriate.

FARM LEGISLATION - EXPORT PROGRAMS

7. What is Kraft's position on dairy exports?

   - KGF/PM supports US dairy exports.
   - As barriers to trade are lowered, the US dairy industry is well placed to compete in global markets. US cheese exports grew 26% over the last couple of years, and we expect these trends to continue. As the leading cheese marketer in the US, KGF is well positioned to participate in these expanded markets.
   - KGF supports market driven export programs that are consistent with our international obligations and do not jeopardize the continued availability of dairy products at reasonable prices for US consumers.

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FARM LEGISLATION - MILK MARKETING ORDERS

8. What does PM/KGF think about the milk marketing order system?

- It is appropriate to provide a mechanism for dairy farmers to receive a blended price reflecting the use of milk for drinking as well as manufacturing.
- Certain aspects of the program tend to encourage milk production in parts of the country where it is not efficient.
- Continued refinement of the program by the USDA is appropriate.

9. Haven't your company's actions reduced the price of cheese and hurt dairy farmers?

- Milk prices are now currently high, due in part to the flooding of last summer. But farmers have been hurt due to the volatility in milk prices resulting from the drop in government price supports without adequate programs to ease the transition. Price supports have dropped nearly 25% since 1981 as federal dairy policy moves toward a "free market" approach.
- For the past three years, we have supported an increase in the government's support price.

10. What is wrong with guaranteeing dairy farmers a decent living?

- Government subsidies do not guarantee farmers a decent living.
- Could result in over production.

STATE DAIRY TRADE PRACTICE LAWS

11. Does KGF/PM adhere to trade practice laws for the dairy industry?

- We comply with all applicable laws.
- Competition is better served by applicable general antitrust and unfair competition laws.

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12. What are the results of the State of Wisconsin's investigation of the National Cheese Exchange?

- The investigation of the National Cheese Exchange by the Wisconsin Department of Agriculture, Trade and Consumer Protection has not been completed.
- No results have been announced.
- Kraft has committed no illegal or unethical acts.

Note: The Wisconsin Department of Agriculture, Trade and Consumer Protection is looking into this assertion as part of its continuing investigation of KGF and other members of the Exchange. At least once and sometimes twice in every decade since the 1940's, some agency of the Wisconsin state government has found it politically advantageous to conduct an investigation of the National Cheese Exchange. None of these has ever resulted in charges of wrongdoing against Kraft or any other member of the Exchange. Kraft has cooperated fully with the department's investigation and is confident that it has committed no wrongful acts.

13. What was the FTC decision affecting Singles? What is the prospective business impact?

(U)
- The Federal Trade Commission entered an order finding that some 1985 Kraft Singles copy implied a misleading claim regarding Singles' calcium content vs. milk and analog products. This order has become final.
- Ads in question were pulled years before FTC decision.

CULTURED PRODUCTS

14. How has integration of the Cultured Products Group into KUSA gone?

- We have integrated the former Cultured Products sales force into the KUSA sales force and have added the seven Cultured Products operating plants to the KUSA stable of plants.

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COFFEE

15. Why aren't you participating in the Gourmet coffee segment?

- Our Gevalia mail order coffee business with $100 million in revenue is the largest single packaged gourmet brand in the US. (Gevalia 1993 volume was 13% above 1992, following 21% growth in 1992 vs. 1991.)

BAKERY

16. Is the cake business growing?

- Cake growth strategies generated volume growth of 4.6% in 1993.
- Major contributors to this growth were:
  - Fat free growth
  - Entenmann's Singles rollout in Northeast
  - Effective advertising
  - Successful expansion to Wal Mart and K-Mart.
- We will continue these strategies.

17. What are your plans for Fresh Lender's Bagels?

- Rollout in 1994 for the remainder of the Northeast and Southern California.
- Watching Sara Lee's recent introduction of Fresh Bagels in California.

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CEREAL

18. General Mills has stated they are not raising prices yet, Post and Kellogg keep raising prices. Any comment?

- Our price increases are influenced by an evaluation of our total cost of doing business and the competitive framework.
- We focus on maintaining the price/value relationship of our products.

19. How is Nabisco performing?

- Nabisco has been seamlessly integrated and has significantly exceeded our expectations.
- For 1993, volume was 76.3 million pounds and IFO was $52.1 million compared to Plan projections of 63.6 million pounds and $30.0 million, respectively.

DESSERTS

20. What are your plans for the RTE business?

(U)
- Recently launched shelf stable gelatin - Kraft Handi Snacks.
- Product achieved 96% trade acceptance with average 3.7 SKU out of four.
- Plans in place to defend against shelf stable entries which are reported to be coming from ConAgra and Hershey.

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DINNERS & ENHANCERS

21. What is the impact of private label on the Dinners & Enhancers division?

- Division has shown significant growth over the last several years, but growth slowed in 1993.
- Private label pressure is increasing due to distribution gains and price gaps as shown below:

	Private Label Share		*Price Gap Vs. Private Label*	
	1992	1993	1992	1993
Stuffing	9.9%	11.4%	51%	61%
Instant Rice	2.3	2.7	34	43
Coatings	0.2	1.2	61	61
Syrups	23.4	23.5	107	107

- We plan to restore base momentum by managing price gaps, improving the quality and nutritional profile, and enhancing packaging.

OSCAR MAYER

22. What is Oscar Mayer doing to prevent E. Coli bacteria contamination?

- E. Coli is a bacterium found in warm blooded animals and is destroyed by thoroughly cooking raw meats.
- All food borne outbreaks have been linked to foods that have not been heated or foods that were improperly heated.
- Oscar Mayer processed meats are thoroughly cooked to an internal temperature of at least 155°F.

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23. During the year there were news stories of unsanitary procedures being performed at some meat packing plants. What is Oscar Mayer's position on this issue?

- Purchase high quality meat raw materials only from federally inspected meat plants.
- Each lot of raw material is again inspected for approval by us when it arrives at our plant.
- If our inspection shows that any shipment is not up to our standards, we dispose of it or return it to the supplier.

24. Oscar Mayer has closed its Sandusky, Ohio facility and recently downsized its Nashville facility. Why were these facilities shut/downsized? Are there further closings planned?

- Plants were closed/downsized to eliminate excess production capacity and reduce costs.
- To ensure that we are cost competitive, additional plant closings may be needed.

BUDGET GOURMET

25. There has been a lot of press about problems in the frozen meal category. How has the category and All American Gourmet performed?

- The frozen meals category has performed very strongly in 1993 with volume up 5%. That's the largest increase in the category in more than four years.
- AAGC's total volume has increased 15%, three times the rate of the category, driven by solid consumer advertising support for the Budget Gourmet brand and the introduction of a new line of pasta entrees "Budget Gourmet Special Selections."

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

KGF CANADA

26. What is KGF Canada doing to meet the gaining popularity of club-size products?

- KGF Canada has established a separate sales and business organization to work with these new customers.
- We have created a number of new package sizes and formats to capitalize on this area. These are made available to all our customers at the same prices and terms. Sales of these new pack sizes were up over 20% in 1992, and a further 34% in 1993.

27. How has the use of BST impacted KGF Canada?

- No impact.
- Currently not authorized for use in Canada, but is being reviewed.
- No Kraft USA dairy products are exported to Canada.

KRAFT FOOD INGREDIENTS

28. Is food ingredients an attractive business?

- KFI is an industry leader in supplying such value added ingredients as cheese, spray dried products, confections, vegetable oils and cheese analogs.
- Growth is driven by retail food trends towards taste, convenience, nutrition, value and variety.
- KFI provides synergies to KGF as a supplier, in improved plant utilization and in technology.
- Business review is in process.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

29. Does KFI sell ingredients to KGF competitors?

- KFI sells products to most major food processors in the US.
- KFI does not offer for sale any products which would give a competitor an advantage over KGF.

30. Does KGF participate in the private label segment of the food industry?

- KFI does manage a portfolio of private label business in categories where we do not have branded entries such as vegetable oils, pan sprays, and non-dairy creamers.

31. What is BerZerk Candy Werks?

- BerZerk Candy Werks is a small entrepreneurial business within KFI, focused on children's novelty candies. Products include *Candy Caller*, introduced in May 1993, which sold over $11 million by year-end.

PRODUCTIVITY

32. What is the degree of coordination between Kraft USA and GF USA?

- Since 1989, KGFNA, excluding KFI, has achieved synergy savings totalling $1.5 billion by 1993, and plans to achieve an additional $1.1 billion by 1996.
- Reduced number of operating groups.
- Reduced sales forces from 5 to 2.
- Integrated logistics/distribution, manufacturing, R&D.
- Eliminated redundancies.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

33. What is the capacity utilization rate at KGF's plants?

- Capacity utilization was approximately 50% on a six-day, 24 hours per day operating basis in 1992 (latest data).
- In 1993 closed 8 plants and consolidated departments across other plants. Two or three other major plants will close this year. As a result capacity utilization rates will improve by 10 to 20 percentage points in affected categories.

KRAFT FOODSERVICE

34. What is the representation of other KGF products in your warehouses?

- KGF Products account for 21,056 SKU's out of the 200,000 SKU's in the Kraft Foodservice Network. The majority (67.0%) of the SKU's are from General Foods and Oscar Mayer.

35. How much of KGF's sales goes through our foodservice business?

- KFS had 1993 sales of $3.9 billion. Approximately 20% consisted of KGF manufactured product.
- Combined sales of the foodservice divisions of Kraft USA, GF USA and KGF Canada totaled $1.4 billion.

36. To what extent is your workforce unionized?

- Kraft Foodservice has 42 locations and 12 are unionized as of December 1993.

37. Any divestitures planned for 1994?

- No divestitures are planned for 1994.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

38. What are your new facility plans for 1994?

- Plan to expand several facilities, and are evaluating new facilities at a few existing locations that are not expandable.

BST

39. Is the FDA the only agency that says BST is safe for humans?

- No. Regulatory agencies in over 20 countries, including the United Kingdom, Canada, France and Germany, have authorized BST as safe for human consumption.
- Other health and medical groups have certified that BST is safe. (American Medical Association, American Dietetic Association, National Institutes of Health)

40. What is BST?

- BST is a naturally occurring protein hormone, Bovine Somatotropin, that is in all beef animals.
- If given to cows it can help increase milk output.

  [Note: BGH and BST are the same.]

41. Will Oscar Mayer use beef with BST, the Bovine Growth Hormone?

- Yes.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

42. Will KGF use milk from cows treated with BST?

- The FDA approved the use of BST in November, 1993. As the FDA stated: "FDA approved the product because the agency has determined after a thorough review that BST is safe and effective for dairy cows, (and) that milk from BST-treated cows is safe for human consumption..."
- If farmers choose to use BST, we see no reason to reject the milk.
- Because the milk is the same, there is no way to test for milk from supplemented herds.

43. Don't you think consumers will want labeling to tell them whether supplemental BST is in their dairy products?

- According to the FDA, the milk is the same, and the FDA does not require labeling.
- We will continue to provide consumers with safe and wholesome products.

44. What impact will the use of BST have on the Milk Support Program?

- Too early to tell.
- It is only one of a number of variables that can affect the program.

45. What is Kraft's position on labeling dairy products to indicate whether the milk comes from cows that have been treated with BST?

(N)
- Support the FDA, which does not require labeling.
- Because the milk is the same, we believe that any labeling could be misleading.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

46. What is Kraft's position on the Vermont law on BST labeling for dairy products?

(N)
- We support the FDA, which does not require labeling, and we believe the Vermont law conflicts with the FDA's position.
- Commissioner of Agriculture has to adopt rules before the law becomes effective, so we don't yet know exactly how this would work.

47. What is Kraft's position on the Wisconsin bill on BST labeling for dairy products?

(N)
- Bill has not yet been signed or vetoed.
- If it is signed, the state would have to adopt rules before any law became effective, so it's too early to comment on the bill specifically.
- We support the FDA, which does not require labeling.

48. What is Kraft's position on Senator Bradley's efforts to label products using milk from cows treated with BST?

(N)
- No bill has been introduced, so it's too early to comment specifically.

49. Does FDA approval of BST put family farms at risk?
- Office of Management and Budget concluded that BST may benefit farms with good herd management whether small or large.

2048300521

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

BIOTECHNOLOGY

50. Do you use bioengineered foods in your products? Will you use them in the future?

- Virtually all of the world's food supply has been "bioengineered" through plant and animal breeding improvements.
- In the currently popular use of the term, however, there are few bioengineered foods available for use in products.
- KGF will consider its options for those products that have FDA approval.

IRRADIATION

51. Do you use irradiated foods in your products?

- We do not currently use the irradiation process.
- We have no current plans to use irradiation or irradiated ingredients.
- We have many other ways to ensure the safety of our products.
- Given the nature of our product line, irradiation does not represent a major opportunity for us.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ANIMAL TESTING

52. Do you do any animal testing? What is the corporate position on animal testing?

- We do not comment on development activities.
- Company contributes to research aimed at trying to identify alternatives to using laboratory animals.
- **Confidential Note:**
  - KGFNA does no animal testing, but contracts for testing at facilities that meet or exceed national standards.
  - KGFI does no animal testing, but contracts for testing in the US at nationally recognized facilities.
  - PM USA does animal testing in Europe.

53. Is Oscar Mayer sensitive to Animal Rights and Animal Welfare issues?

- Oscar Mayer purchases meat and poultry ingredients from processors who certify compliance with USDA Humane Slaughter Laws and Regulations.

54. Oscar Mayer grows and processes turkeys. Do they follow good animal welfare practices?

- Yes. All company grown turkeys are produced under appropriate housing and feeding practices.
- All turkeys are processed and handled in compliance with USDA Humane Slaughter Regulations.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

KRAFT GENERAL FOODS INTERNATIONAL

55. What has been the real growth of your business, both unit and income, excluding acquisitions, divestitures and currency?

- Base business volume growth (89-92) approximately 3% CAGR.
- IFO growth (88-92) is 10.5% excluding currency impact. Including currency, IFO growth is 12%.

56. Do you plan to bring any European products to the US?

(U)
- Gevalia coffee
- Lite coffee concept originated in Europe.
- Soluble cappuccino concept introduced in the US under the Maxwell trademark.

EUROPE

57. How large are the markets in Europe for your three leading products - coffee, confectionery and cheese? What is your share? What are your margins?

- Coffee, confectionery and cheese are staples in the European diet.
- We have number 1 share positions in all categories.
- Coffee category is $13-15 billion in size. We have a 27% share in the roast & ground segment. Margins above 10%.
- Chocolate is $19 billion in size. We have a 17% share in continental Europe with a niche position in the UK. Margins approximately 10%.
- Cheese is $40 billion in size. We have a 41% share in the process cheese segment and a 40% share in the cream cheese segment. Margins approximately 10%.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

"DOLPHIN-FREE" TUNA

58. Do Kraft General Foods' products in Italy, Mareblu, use only "dolphin-free" tuna?

- Yes.

EMERGING MARKETS

59. How are we capitalizing on the opportunities in Russia and Eastern Europe?

- We export Jacobs Suchard coffee and confectionery and other food products into Russia and Eastern Europe.
- We recently signed agreements to acquire:
  - the Kaunas confectionery company in Lithuania
  - the Republika confectionery company in Bulgaria
  - the Chorzele Cheese company in Poland
  - the Poiana confectionery company in Romania
- We have made significant acquisitions in Hungary (Csemege), in Slovakia (Figaro), in Poland (Olza), and in the Czech Republic (Dadak).

60. Do you have a business in Yugoslavia? Is this at risk?

- We do not have an in-country operation in Yugoslavia.
- We continue to export product to Yugoslavia
- Tonnage has dropped off each year since 1991 when we sold nearly 2,000 tons of product.

61. What type of food businesses do you have in Asia?

- Business focused on core categories of coffee, confectionery and cheese.
- Sizable grocery business selling products such as Tang.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

62. How large is your Latin America food business?

- Contributes $500 million in revenue and is highly profitable.
- Seeing increases in consumer purchasing power in our key countries: Argentina, Mexico and Brazil

JOINT VENTURES

63. Are you involved in any joint ventures?

- Turkey with Sabanci as our partner.
- 50/50 joint ventures in Japan and Korea.
- PRC: 3 joint ventures where we have majority equity positions for the sale of Maxwell House Coffee, Tang and Kraft dairy products.
- Latin America confectionery:
  - Brazil: 2 joint ventures operating under the names of Q-Refres-Ko and Lacta.
  - Columbia under the name of Colombina.
  - Costa Rica under the name of Gallitos.

64. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?

- We are in the business of giving consumers what they want — not dictating their needs and preferences.
- We produce food products of the highest quality, safety, hygiene, and nutrition for consumers who wish to buy them, wherever they live.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PRIVATE LABEL

65. Are there large price gaps in Europe between branded consumer goods and private label products?

- European price gaps have been at the same order of magnitude as the US experience.

66. How large is private label in Europe in your main categories?

- Private label shares have traditionally been higher in Europe than in the US, but they are not growing.
- The importance of private label products varies by country and by category.
- Private label is not a major threat in Roast & Ground coffee and confectionery. (Excluding the trade that is "closed" to us such as Aldi in Germany.)

IRRADIATION

67. Does KGFI sell irradiated food anywhere in the world. What is the corporate position?

- Consumer concern and unease is such that we have decided, for the present, to avoid the use of irradiation on our food products.
- However, the World Health Organization estimates that widespread use of irradiation would save $1 billion annually in costs now associated with the treatment of trichinosis.
- We support continued research in this technology and education to increase consumer understanding and support.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PRICE HEDGING

68. What are your largest raw materials, and do you hedge their prices?

- Our largest raw materials are coffee, cocoa, and milk.
- We utilize hedging strategies on coffee and cocoa.
- We are unable to hedge milk prices because it is a locally-controlled commodity in the EC, and there is no futures market.

US SUGAR PROGRAM

69. What is the KGF position regarding the US Sugar program?

- The program causes artificially high prices for sugar through import quotas and marketing allotments that create imbalance between supply and demand.
- In the 1990 Farm Bill, Congress adopted mandatory marketing allotments which were announced for the last quarter of FY93.
- We registered our opposition to allotments through the Sweetener Users Association, and provided industry support for the announcement by the Secretary of Agriculture on September 30, 1993, that marketing allotments would not be imposed for the first quarter of FY94.

70. Is there an opportunity in the near term to modify the domestic sugar program?

- The Omnibus Farm bill will be up for reauthorization in 1995, and the sugar program will be targeted for reform.
- Congress has shown an increasing dissatisfaction with agriculture subsidy programs.
- Growing divisions exist between the domestic sugar growers and processors for the future direction of the sugar program.

2048300528

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

EFFICIENT CONSUMER RESPONSE (ECR) IMPACT ON INDEPENDENTS AND WHOLESALERS

71. What opportunities does ECR provide for the independent?

- ECR provides the independent with a more efficient cost structure to bring better value to customers.

ECR CHANGE AND BENEFITS

72. Doesn't ECR go beyond the installation of scanners and imply the type of change for the industry that goes way beyond any ordinary advancement in technology?

- Two-thirds of the ECR savings, or $20 billion, can be achieved with current technology.
- The challenge is changing businesses practices.

73. In your opinion, does the ECR project solve the problem of maintaining a level playing field on deals and allowances for the independent operator and his wholesaler? If so, how? If not, why not?

- The ECR vision for promotions is that they are more efficiently executed through Point of Sale/scan capabilities.
- The current sea of inefficient trade dealing will evaporate and with it most, if not all, level playing field issues.

74. Why did the Uniform Commercial Standard (UCS) concept lose its momentum and why should one believe that ECR will live up to its potential in the food industry?

- UCS lacked a vision to drive it. ECR is a complete vision of a more effective system.

75. Will independents be willing to share their Point of Sale scan data with their wholesalers? And with their manufacturers?

- Over time more and more independents will see the value of a supply chain that is driven by Point of Sale/scan data.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

KGF AND ECR

76. What are KGFNA's plans to take advantage of ECR growth?

- We are focusing our energies on 3 areas:
  - Changing our business practices to take advantage of EDI (Electronic Data Interchange) capabilities to exchange critical market and transaction data with our customers;
  - preparing to assist customers as they adopt the category management approach to selling products; and
  - taking advantage of the formation of KGF Customer Service, Incorporated to provide a wide-range of distribution options that only a company like KGFNA can offer.

MICROBIAL CONTAMINATION/HAZARD ANALYSIS CRITICAL CONTROL POINT (HACCP)

77. What is HACCP and what is the impact of USDA and FDA regulations for HACCP on Oscar Mayer?

- Hazard Analysis Critical Control Point (HACCP) plans are tools designed to identify and control know food safety risks in conversion and distribution processes.
- USDA and FDA are proposing regulations for HACCP which will be applicable to our meat processing business.
- Oscar Mayer has, on a voluntary basis, established a plan to implement HACCP in all plants in 1994.
- The impact to current conversion and distribution systems will be minimal because HACCP plans are an enhancement to OMFC current USDA approved Total Quality Control programs.

2048300530

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

USDA Food Safety

78. Does KGF support the recommendations of the Vice President's Task Force on Reinventing Government that calls for transferring the food safety responsibilities of USDA, now carried out by the Food Safety and Inspection Service (FSIS), to the FDA?

- Current meat and poultry inspection system is outmoded.
- It does not provide adequate public health protection.
- It is greatly in need of reform.
- The required reform can be carried out effectively by the Department of Agriculture.

Temporary Emergency Food Assistance Program (TEFAP)

79. Does PM/KGF support emergency food assistance programs such as TEFAP?

- It is appropriate to distribute surplus food for humanitarian purposes in foreign disasters.
- Domestic distribution must be managed very carefully to avoid distribution of food to non-indigent and thereby disrupting the entire food distribution process in the US.
- Food stamps are a better way to handle distribution to the poor in the US.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

GENERAL OPERATIONS

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

GENERAL OPERATIONS

CORPORATE AIRCRAFT

1. Why does PM need an Aviation Department?
   - 2 primary reasons:
     - Many locations in the US and in Europe are difficult to reach via commercial air, and it allows us to travel in developing regions of the world not supported by reliable commercial airlines.
     - Greater level of security for senior management.

2. How many corporate jets does PM have?
   - 10 jets, 1 helicopter.
   - We had 14 jets last year.

3. How much does the corporate aircraft program cost?
   - Project $24 million for 1994 (OB).
   - Down $9 million from 1993 OB (1993 actual was $28 million).

HEADQUARTERS COSTS

4. What is the corporate headquarters doing to keep costs down?
   - In all cases 1994 operating budgets are less than the 1993 budgets.
   - Due to the early retirement program offered in 1993 and elimination of open positions; headcount is down 100 positions (1993 year-end headquarter headcount is 972).
   - All functions are looking to further reduce costs.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SMOKING POLICY

5. Does PM have a smoking policy? If so, what is it?

   - Yes, we do. In a nutshell, it is a policy based on respecting the rights of non-smokers and smokers, courtesy, mutual respect, and accommodation.
   - Our policy, "A Guideline to Accommodating Smoking," is available.

6. What is PM doing for its employees who are exposed to ETS in the workplace?

   - We do not believe ETS is harmful.
   - We accommodate both smokers and nonsmokers in our workplaces.
   - The maintenance of our ventilation systems meets or exceeds current HVAC standards as established by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE).

BURMA

7. Do you carry on any business dealings in Myanmar (Burma), whose government has a history of human rights abuses?

   - No.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

VIETNAM

8. Does PM have an office in Vietnam? Does PM support the lifting of sanctions in Vietnam?

   - PM has established a representative office and we are evaluating opportunities to make our products available in Vietnam. Nothing has been finalized.

INDIA

9. With the recent liberalization of the economy in India, will foreign investments increase? Is PM planning to increase its presence in India?

   - We are looking at several alternatives to increase our presence in India.
   - We are already present in India with 35% ownership of the second largest cigarette company, Godfrey Philips of India. We are not marketing Marlboros at this time.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PEOPLE'S REPUBLIC OF CHINA

10. Do you do business in the People's Republic of China? Do you think the PRC, with its abusive human rights record, should be "rewarded" by western companies for the sake of profit?

- Yes. We are in compliance with the policies of the US State Department regarding the PRC.
- With a population of 1.2 billion, it's essential that we increase our presence there as our principal competitors have and continue to do so.
- To date, we have established 3 joint ventures:
  - coffee (Maxwell House) with the Guangzhou Dairy Products Factory,
  - powdered beverages (Tang) with the Great Wall Food Company in Tianjin, and
  - KGFI with Beijing General Corp. for Agriculture, Industry, and Commerce to start a joint venture dairy plant.

11. How have the recent "Most Favored Nations" (MFN) developments affected our current business in China?

- It is still too early to determine how these negotiations will affect our business, and it is our policy generally not to comment on geopolitical topics.
- We support free and open trade and will continue to abide by the laws and regulations set forth by the US government.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

12. What does the recent cooperation agreement represent in terms of PM's potential tobacco business in China?

- There are 3 phases to this agreement:
  - production of a brand for export,
  - production of Marlboro for the domestic market, and
  - production of other brands for both domestic and export sales.
- We expect most of this to begin this year.
- With over 300 million smokers, China is the largest cigarette market in the world.
- Currently, the Chinese monopoly alone accounts for almost 1/3 of the world's cigarette production. International companies currently hold only 1% of the market.

SOUTH AFRICA

13. What is your outlook on South Africa?

(U)
- Our KGF and Jacobs Suchard businesses have licensing agreements in South Africa, but royalties are relatively insignificant.
- Philip Morris International has existing arrangements in South Africa also. PMI's stake in South Africa is less than 1/10 of 1% of its annual revenues.
- The licensing agreements protect the PM trademarks in the country.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

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TOBACCO OPERATIONS

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

TOBACCO OPERATIONS

PM USA

1. What are the biggest risks to PM USA 's growth outlook.

(U)
- Price competition due to aggressive support for private label and other low priced products.
- Widening price gap between premium and discount brands.
- An increase in the FET.

MARKET SHARE

2. What is PM USA's position in the industry; its share of market?

(U)
- Market leader since 1983.
- Shipment share of market in March 1994 was 45.6%.
- The best selling premium and discount brands in the industry.
- Marlboro shipment share for March 1994 was 27.4%, largest brand.
- Basic, one of the top 3 discount brands, 4.6% shipment share in March 1994.

SALES BREAKDOWN

3. What is the retail breakdown of our sales?
- Convenience stores account for 47% of industry sales, supermarkets 25%, drug stores 7%, mass merchandisers 6%, and other outlets 15%.

2048300542

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

JTI

4. Is there any threat of the Japanese Monopoly becoming a larger competitor in the US market?

   - JTI has shown interest in expanding beyond Asia. We expect them to enter Europe and the US. In fact, JTI's Wave entered the US market in 1993.

PRICE REDUCTION/MARLBORO FRIDAY

5. Is PM USA satisfied with the outcomes of the price reduction?

(U)
   - Yes, broad scale Marlboro price promotion announced April 2, 1993, and list price reduction announced in July and implemented in August, reduced absolute prices to 1990 levels and closed the price gap.
   - Consumers making purchase decisions on brand names, rather than price alone.
   - Marlboro gained 5.3 Nielsen share points between March 1993 and March 1994, and increased to a record high of 27.4% SOM.
   - Other premium brand shares climbed to 9.1% in March 1994.
   - Discount category declined 5.2 points from March 1993 to 32.5% in March 1994.
   - Basic increased market share to 4.6%, one of three best selling discount brands, #1 discount brand in C-stores at 5.1%.

6. What is PM USA doing to make sure the same situation won't be repeated?

   - Building brand equity.
   - Managing premium/discount price gap.
   - Balancing price value relationship of trademarks.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

7. How has PM USA adjusted to the new environment since August to ensure future growth?

- Investing in our brand franchises with marketing programs.
- Restore and build equity and value to the consumer.
- Watching the price gap to ensure stability.
- Streamlined business processes:
  - — Number of cigarettes produced per labor hour increased 5%.
  - — Factory utilization rates increased.
  - — Total manufacturing cost per thousand decreased 4%.
- Productivity improvements of $358.6 million in 1993, with $285 million budgeted for 1994.

8. How great of an affect did inventory reduction by wholesalers and retailers have on PM USA volume.

- Inventory reduction for PM USA about 3.4 billion units (about 1.7% of total sales in 1993).
- The wholesale trade accounted for about 2.2 billion units and the rest was accounted for at retail.

9. What do you expect industry shipments to do this year?

- The industry has been declining since 1981.
- Industry will continue declining at an annual rate of 2% – 2.5%.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

10. Won't lower prices induce teenagers to buy Marlboros?

- We have no evidence that it will.
- None of our research deals with people under the legal age who purchase cigarettes.
- None of our marketing activities are directed at people who are under 21.
- We proactively support legislation that makes smoking illegal for those who are under 18.
- We work with retailers to make sure they understand and obey the law ("It's The Law").

11. Does our research show an increase in the number of smokers as reported in the media?

- The Center for Disease Control and Prevention reported an increase in smoking incidence in 1991 of 25.7% from 25.5% in 1990. However, we see consumer take-away declining at 2 to 2.5% annually.

12. What would have happened if you had made none of the changes that you announced on April 2, 1993?

(U)
- We believe discount growth would have continued to accelerate to the detriment of Marlboro and our other premium brands.
- If trends from June 1992 through April 1993 had continued and we hadn't taken action on April 2, Marlboro's share would have fallen to 18% by year-end. The discount category, had trends continued, would have increased to about 46% of the market.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

13. If Marlboro's share declined below 24% with the price gap stable, would a further narrowing of the gap be in order?

- We expect to see local promotional activities by competitors on different brands, premium and discount. That's part of normal marketing and it doesn't concern us.
- A wide gap leads to premium brand instability and premium share loss.
- We carefully monitor the market.

14. What impact did the change in strategy announced on April 2, 1993 and the subsequent price reductions have on industry volume?

- Both the retail and wholesale trade adjusted inventories downward.
- Estimate total inventory corrections accounted for 23 to 26 billion units.
- Year end LIFO program in November 1993.

15. What was the price gap between premium and discount cigarettes before your announcement, and what is it now?

(U)
- In convenience stores, Marlboro's pack price has fallen from $2.23 in March 1993, to $1.91 today.
- Lowest discount has risen from $1.18 to $1.33.
- Price gap has been cut in half from 89% to 44%.

DISCOUNT BRANDS

16. How will PM USA increase profitability at the low-end.

- Build discount brands with equity.
- Raise prices where possible.
- Reduce costs to improve discount brand margins.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

17. Are there any significant changes occurring in the discount category? If so, what are they?

(U)
- Manufacturers are building brand equity by offering consumers more than just price in a product (advertising, new packaging, promotion).
- Three *branded* discount products have separated from the pack: (Basic, 4.6%; Doral, 4.7%; GPC, 4.4%)
- Basic launched an advertising campaign in the 3rd qtr. '93. Program offers consumers added value in addition to lower price.
- Distribution of private label brands has leveled off.
- Some retailers now have their own cigarette brand.
- Retailers beginning to promote Marlboro, instead of low price cigarettes, to build traffic.

18. How are your discount brands doing?

(U)
- PM USA 's share of the discount category grew 1.5 share points in 1993 (Nielsen).
- Basic is one of the top 3 discount brands with a 4.6% share in March and the #1 discount brand in C-stores at 5.1%.
- PM USA share of discount was 28.2% in March, up .2 share points between January and the end of March, 1994.

2048300547

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

19. What is the profitability of your discount brands?

(U)
- Discount brand profitability is lower than Marlboro and our other premium brands. Profitability has increased vs. '93.
- [PM USA budgeted following net contribution margins for 1994]:

Marlboro.....	$25.57	Basic.....	$13.61
Total Discount....	$11.57	Private Label.....	$8.75

- [Change in net contribution margins vs. 1993]:

Marlboro.....	+ $2.57	Basic.....	+ $7.33
Discount.....	+ $5.32	Private Label.....	+ $4.42

- [Revenues per thousand]:

	Net Sales $1000	
	1994	1993
Marlboro.....	$53.33	59.08
Discount.....	37.85	32.26
Basic.....	40.06	31.25
Private Label.....	31.70	26.39

20. Are you price promoting Basic right now because you are losing share in the discount category?

(U)
- Basic remains one of the 3 top selling brands in the discount category.
- Basic's share is down 3/10 of a percent versus July, when we reduced premium prices. But the entire discount category's share is down.
- Promoting only where price competition is severe and Basic is losing share.

2048300548

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

21. Could you confirm the shift of funds from Basic's ad budget to Virginia Slims'? Do you think this will affect PM's ability to compete in the discount market?

- Not true. Virginia Slims has its own budget and plans, and Basic has its own budget and plans.

PRIVATE LABEL

22. What threat do private label brands pose to PM USA brands?

(U)
- Private label products grow when the economy is bad or when prices of brand name products are too high.
- Prior to August 1993, private label cigarette sales grew because the price difference between premium brands and low priced cigarettes was too big.
- Private labels, which peaked at 10.4% of the industry in May 1993, have since declined.
- In March 1994 Nielsens, the private label segment was 7.8% share of market.
- Since price reduction, private label share declined and our branded products grew.

23. Is PM USA in the private label business?

- Yes, we participate in all segments.
- Valuable partnerships can be established with the trade through the private label business.

2048300549

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MARKETING PROMOTIONS

24. Have costly programs like Marlboro Adventure Team been effective?

- Yes. Marlboro Adventure Team was the biggest consumer promotion in the history of the industry.
- An estimated 16.8 million smokers collected MAT miles.
- MAT was successful at increasing Marlboro's share. Reinforced brand loyalty.
- Received over 6.8 million mail receipts for 28 million items.

25. You mentioned that PM USA operating income was down because of lower cigarette pricing and your "substantial marketing investment in Marlboro." How much did you spend on the Marlboro Adventure Team promotion? What were some of the other marketing expenditures?

- Will not discuss our marketing expenditures for competitive reasons.

  (**Confidential**: Cost of MAT: $450 million)

26. Did MAT add two million consumers to your database?

- We consider that information proprietary.

27. How many people are on your database?

- We consider that information proprietary.

28. If MAT was successful, why are you ending it? What is the new gear continuity program that you are offering consumers?

- MAT was successful because it was new and different. Promotion, by its nature, is short-term and pulsed.
- Starting this month, we will offer a thematically different continuity program, Marlboro Country Store.

2048300550

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

29. What is the status of the Marlboro Adventure Team gear backorders?

- The demand for MAT gear far exceeded our expectations.
- The promotion expired February 28. We expect to fulfill all orders received prior to the program's expiration within the 10- to 12-week period promised on the order form.
- Written acknowledgment of orders will be delivered to consumers within the next few weeks. Delivery delays, if any, will be immediately communicated in writing with all affected consumers.
- To expedite order processing, PM retained 4 additional processing facilities and 3 additional fulfillment locations.
- Special edition T-shirts for consumers as added bonus in appreciation for their patience in awaiting the arrival of their MAT gear.

30. What is the Merit Awards program?

(N)
- Launched this year, "Merit Awards" is a new continuity program delivered through direct mail, free-standing inserts, and retail promotions.
- Program rewards smokers for choosing Merit by allowing them to redeem pack UPCs for incentive items.
- Designed to encourage trial, purchase continuity, brand loyalty.

2048300551

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

31. Why did PM USA run different ads for smokers and non-smokers in December's People magazine?

(U)

- We are evaluating the effectiveness of selective binding (customized use of magazine circulation to reflect advertiser's ideal audience).
- Tested in December in Time Inc's magazines (Sports Illustrated, People, and Time).
- Our advertising ran in all magazines, but the ads that appeared in magazines corresponding to smokers were different.
- Our objective is to deliver more sophisticated offers and specific messages to smokers.
- Results of the test indicate that the right ads went to the right people.
- Marlboro Country Store using selective binding in June 1994 (Time Inc.: People; Sports Illustrated; Entertainment Weekly; Meredith: Country America). National run -- copy splitting smokers.
- In Outdoor Life and Field & Stream, ad is in magazines to smokers only.
- May use selective binding for Merit Award promotion in September.

2048300552

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

32. Gary Black estimates that PM's marketing budget is $1.1 billion, $500 million lower than last year. Can you confirm these figures? How will the budget cuts affect promotion of PM brands?

- Do not comment on budgets or financial issues.
- Continue to support each brand with equity-building marketing programs.

Confidential:

- Marketing budget 1993: $2,031 million 1994: $1,211 million
- A number of one-time items inflated 1993 marketing expense Including Marlboro price promotion; price reduction payments to accounts holding inventory at the time of August price reduction.
- 1994 marketing expenditures more in line with '91 and '92 levels.

33. What's the news about your other premium cigarette brands — new campaigns, new promotions, new products, new price initiatives? Brand or line extension contractions, expansions?

- Merit launched a new advertising campaign "Yes you can!" in 4th qtr. 1993 to reinforce its position as a lower tar cigarette with premium taste.
- Parliament revised its advertising in the Northeast and instituted local events to support the brand among its young adult consumers.
- In 2nd qtr., Benson & Hedges will launch a new campaign (The Length You Go To For Pleasure) reinforcing its historical position as the premium quality 100mm cigarette.
- Virginia Slims advertising has been updated to appeal to today's women.

2048300553

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MASTERS PROGRAM

34. What is the Masters Program, and how much does it cost?

(U)
- Retail Masters provides retailers with monetary incentives for managing the cigarette category using the following principles:
  - Allocating space according to share.
  - Managing premium vs. discount.
  - Promoting the category.
- Cannot comment on the cost of the program for competitive reasons.

  (**Confidential**: 1994 plan is budgeted at $455 million. Estimated to penetrate 73% of C-stores and 66% of supermarkets reflecting consumer preferences for packs).
- Wholesale Masters designed for distributors several years ago.
- '94 program, considers concerns about distributor profitability since our July pricing announcement
- Goal is to improve the profitability of distributors who successfully compete for our business by best supporting the sale, distribution and promotion of our products.
- Our '94 program is on hold. We hope to roll-out the program soon. (**Confidential:** the 1993 program, which had a different structure, had a payout of approximately $46 million. Approximately 75% of direct accounts representing 90% of industry volume participated in '93.)

2048300554

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

INVENTORY

35. What are your domestic trade inventories? How does that compare with trade inventories at the end of 1992?

(U)
- Year end 1993 wholesale inventory levels were as little as 2—3 days up to few weeks depending on the customer.
- Year end 1992, they were at 3-4 weeks.
- At retail (Nielsen):

	PM USA	Marlboro
1993	20 days	13 days
1992	22 days	16 days

36. What will be your target inventory levels for 1994?

- We do not set targets for inventory levels.
- Maintain appropriate levels of inventory of our products to avoid out of stock situations at retail. We closely monitor this situation.

PLANT TOUR

37. Why did you eliminate the Plant Tour Program?

- Revised the tour program, making it a more focused and effective tool, while reducing costs and making the operation more efficient.
- Eliminated the **public** plant tour program.
- Created the expanded **business** plant tour program to build relations between PM and a wide range of customers, suppliers, public officials, news media, farmers, international business, government officials, and similar groups.

2048300555

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

38. Are you actually saying that the elimination of the public tour has nothing to do with anti-smoking publicity?

- We have not eliminated the tours.
- We are simply providing them on a more selective, cost-effective basis.
- Did not do this in response to anti-smoking publicity.

SINGLE SOURCE VENDOR PROGRAM

39. The PM Single Source Vendor Program is costing small vendors in the Richmond area thousands of dollars worth of business. Can you explain the rationale behind moving to large single source vendors, at the expense of small local vendors?

- More and more corporations are developing partnership arrangements with their vendors in an effort to reduce cycle time and costs while ensuring a high level of quality.
- A single source vendor system does not, however, necessarily hurt small businesses.
- Business that is shifted to fewer, larger vendors means that those vendors will be purchasing more goods and services, and will be creating more jobs to provide us with the goods and services we need. In many instances, large vendors purchase their goods from smaller companies.
- While there may be some short-term disruption, long-term, as our business becomes more efficient and profitable, we buy more goods and services, thereby creating a positive economic climate in the communities in which we operate.

Note: No indication that any vendors are attending meeting.

2048300556

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

TOBACCO CROP CONVERSION

40. Is Philip Morris helping farmers convert to other crops?

- No. No need to.
- For generations farmers have been making the kinds of decisions required to maximize their profits.
- When farmers perceive it is to their economic advantage, they pursue supplementary forms of income without outside aid or interference.

FEDERAL PRICE SUPPORTS

41. Why does PM USA support the federal tobacco price support program?

- The tobacco price support program assures a steady supply of tobacco at relatively stable prices.
- Producers and purchasers share in the costs of the tobacco program so the program has no net cost to the taxpayer (except for routine federal administrative costs).

  (Federal tobacco program: Federal government assigns certain levels of price support to each grade of tobacco at auction, i.e. a minimum price farmers will receive per pound of certain types of tobacco. The program provides farmers a stable and reasonable rate of return for their product while purchasers are able to make more accurate projections of their costs for the tobacco they buy.)

2048300557

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SMOKING ACCOMMODATION

42. What is PM's position on the severe smoking restrictions now being debated in the City Council?

(N)
- We oppose this legislation and favor a policy of accommodation.
- Smokers contribute as taxpayers, voters, business owners and citizens to the welfare of New York City.
- New York City already has one of the strictest smoking laws in the country. There is no need for an all-out smoking ban.
- City-wide smoking ban will have an adverse effect on tourism — particularly foreign tourism — and it will discourage meeting planners from choosing New York City as a convention site. This could cost the City millions of dollars annually.
- The weight of the scientific data available does not establish that ETS is harmful to non-smokers.
- PM is a good corporate citizen. Employs more than 1,000 people and contributes more than $13.5 million to NYC arts, educational and civic organizations
- Many products and activities are controversial. Is the City Council going to try to ban all of them?

43. What is PM's position on smoking in restaurants, offices and other public places in light of the EPA's risk assessment?
- As of 1993, 26% of American adults were smokers.
- We support accommodation of smokers and non-smokers in public places and in the workplace.
- Nearly 66% of respondents to a national survey favor accommodation of smokers and non-smokers in restaurants and other public places. (Source: USA Today/CNN/Gallup Pole, March 1994)

2048300558

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

44. What are you doing to address the increasing number of smoking bans in the US?

- Launched The Accommodation Program (provides hotel and restaurant owners, store owners, shopping mall management and other decision makers with a reasonable alternative to smoking bans. Successfully field-tested in Pittsburgh, the program is now being implemented nationally).
- Inform activist smokers through "Smokers Advocate" and "Smokers Caucus" newsletters.
- Active government affairs field staff.

45. What is the public perception of smoking today? Has it improved or gotten worse?

- Bans and sanctions have increased.
- Smokers are more self-conscious about lighting up.
- Anti-smokers feel bolder in attempting to make other peoples' decisions for them.

46. What is PM doing to prevent discrimination against smokers?

- Support passage of privacy legislation at the state level.
- Today, 29 states and the District of Columbia have laws which prevent employers from discriminating against smokers who smoke away from the workplace.

47. How does PM feel about the elimination of ashtrays in some car models?

- It's unfortunate that America's 50 million adult smokers will be inconvenienced.
- Car makers have the right to run their businesses as they see fit; we question the wisdom of ignoring this enormous market.

2048300559

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

48. A number of State Attorneys General have been calling for smoking bans in fast food restaurants, which are heavily frequented by minors. What is PM's response to these proposals?

- PM doesn't market cigarettes to minors and doesn't want them to smoke, but we oppose restrictions that unnecessarily limit the freedom of adult smokers.
- In restaurants, we favor the accommodation of smokers and non-smokers through designated smoking and non-smoking areas.
- Research shows that smoking and non-smoking areas do a good job of limiting the amount of smoke in a non-smoking area. Several studies have shown that a non-smoker would have to spend hundreds of hours in the non-smoking section of a restaurant to be exposed to the nicotine equivalent of one cigarette.
- McDonald's in the US and Taco Bell in both the US and Canada have banned smoking in their corporate owned outlets.

2048300560

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

49. Why are you building smoking lounges in airports? Are you going to be building more? Are you building them in cooperation with other tobacco companies?

- We are not building smoking lounges.
- Atlanta:
  - Unique opportunity to accommodate smokers at the airport in lounges (with separate exhaust systems) that the city would build if we helped fund them.
  - Funded with dollars normally used to pay for advertising space around the airport.
- Denver:
  - Entered into an agreement with a restaurant firm (Pour La France) to create 2 smoking lounges at the new Denver Int'l Airport.
  - PM will receive exclusive advertising rights in both lounges; Pour La France to provide food and beverage service. Atmosphere similar to VIP passenger lounges.
  - Believe lounges will set a new smoker accommodation standard in airports.
- Detroit:
  - We matched up a ventilation filter manufacturer with Host/Marriott, which operates a restaurant/bar at the airport.
  - Filter manufacturer is providing its filters free to Host/Marriott on a trial/demonstration basis, and the airport has agreed to allow smoking in the bar with the additional filters.
  - No PM involvement in this arrangement.

2048300561

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

50. A shopping mall here in Richmond (Regency Square Mall) has announced that it is considering a smoking ban. Other Richmond area malls may follow suit. How do you respond to smoking bans here in your home town?

- The same way we do anywhere else, point out that accommodation makes more sense than smoking bans.
- More than one-quarter of adult Americans choose to smoke. It makes no sense to discriminate against 26% of the shopping public.
- Nearly 66% of respondents in a national survey said they favor accommodation in public places.

ASSIST Program

51. What is the status of the ASSIST program? Are ASSIST funds being used for lobbying and if so, what are we doing about it?

- Project ASSIST is a federal program established three years ago designed to reduce the incidence of smoking in 17 targeted states. A total of $115 million is being spent over seven years on the project, with an additional $35 million contributed by the American Cancer Society. Three years have been devoted to research and preparation; the next four will feature implementation.
- ASSIST funds are distributed to the state boards of health which then disburse the funds to local anti-smoking groups that apply for support through project proposals.
- There has been some suggestion that ASSIST funds are being used for lobbying purposes, which would violate federal and, potentially, state regulations on the expenditures of federal funds. We are looking carefully at this matter.

2048300562

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SCIENTIFIC

52. Is PM USA investigating alternative uses of tobacco?

- No. Such research is being done by some universities in the tobacco-growing states, but we are not funding it.

53. There are some studies indicating that nicotine is beneficial in preventing or ameliorating the effects of Alzheimer's disease. Is PM doing any research in this area?

- We are funding research into this issue at Case Western Reserve University in Cleveland, Ohio.

54. The Centers for Disease Control and Prevention reported last September that every cigarette a smoker smokes takes seven minutes off his or her life. Is this true?

- Scientific research does not support that claim.

55. How do you respond to the Centers for Disease Control and Prevention which says that the tobacco industry needs to attract more than one million new smokers per year to replace those who have died or broken their addiction?

- About 30,000 adult smokers switch brands every day. That amounts to about $10 billion worth of business a year.
- The number of adult smokers in this country has been dropping by 2% to 3% each year. Still, more than 50 million adults smoke in this country.

2048300563

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

NSA

56. What is the National Smokers Alliance?

- The National Smokers Alliance (NSA) is a national non-profit organization made up of a broad section of American citizens who support smokers' rights.
- NSA members are politically active adults who support freedom of choice.
- Prevent discrimination of smokers.

57. Was NSA created by and is it a part of PM?

- No. It is a national consumer group with the goal to defend and protect smokers' rights, monitor legislative activity, provide information, and represent smokers with the media and elected officials.
- Coalition development experts (Burson-Marsteller) set up the organization to meet our consumers' need to have a smokers' rights organization.
- Barbara Rewey, media coordinator at the NSA. (703) 684-4842

58. How much has PM spent on NSA?

- We have provided the organization with a development grant. (**Confidential:** A total of $5.5 million in 1993 and 1994.)

2048300564

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

NEW BUSINESS

59. With the recent announced acquisitions, it looks like PM is shifting its manufacturing away from the US to other countries. Is this true?

- No. We prefer to export from the US.
- Local manufacturing is necessary in some countries, i.e., Turkey.
- No sudden shifting has occurred. PMI has been operating profitably in Eastern Europe for over 20 years. The long-standing relationships we have built are one reason for our success in winning international bidding opportunities created by governments actively seeking foreign investment.

60. The Czech government lifted its monopoly laws allowing foreign competitors into the market. Do you expect this to affect our business there dramatically?

- Our established presence, brand recognition and distribution give us competitive advantage.

61. What is the current profitability on the investment in Eastern Europe and status of shipments to Russia?

(U)
- Making $141 million in Central and Eastern Europe. Will not disclose country figures.
- Shipping Marlboro and Bond Street to Russia through private channels.
- Signed a 5-year license agreement with TD Rovinj in Croatia, on March 24 for the production of Marlboro.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

62. Has the political instability in the former Soviet Union affected PM's business there?

- We view the events as a strong move towards democracy and a free market economy in the long-term.
- We are continuing to do business in Russia and our current business is growing and profitable. We are closely monitoring the situation and will take appropriate action as needed.
- With our start-up in Samara (June 1992), we were the first joint venture in the Russian Republic to produce an international brand.
- In St. Petersburg, a 1 billion unit make/pack facility will be operational in summer 1994. We also have plans for a separate 10 billion unit greenfield site.
- In 1993, PMI invested in Lithuania and Kazakhstan.
- We acquired 49% of the Krasnodar Tobacco Factory in 1993.
- We expect that the business environment will continue to be volatile, but are confident that there is enormous business potential.

Confidential: To date (3/31/94) our total investment in Russia is $15 million.

KLAIPEDA

63. Is PM reconsidering allocating an additional $25 million in the construction of the new factory in Klaipeda?

- There is currently a problem in Lithuania with the fact that many cigarettes are coming into the country with taxes unpaid.
- We have had many discussions with the government and will continue with our investment plan when this problem has been resolved.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

64. What are your expectations for China, Russia, Korea, Indonesia and other under developed markets in terms of volume and profit potential?

- We cannot comment on individual markets.

65. Are we making a reasonable profit in Brazil and other Latin American markets?

- Latin America is our fastest growing region.
- We are making in excess of $250 million in IFO.

66. Does PMI conduct business in Malaysia?

- On March 27, PM obtained approval to build and operate a tobacco processing plant in Malaysia.
- New facility, no loss of PM jobs.
- Facility to process tobacco for other facilities already manufacturing our products in Asia.
- Prohibitively high duties preclude us from sourcing some Asian markets from the US.
- Value of the investment is approximately US $67 million.

JAPANESE MONOPOLY

67. Do you expect the Japanese monopoly to expand through Europe and Asia?

(U)
- Japanese monopoly, Japan Tobacco, is already expanding through Europe and Asia. For example they are the number two cigarette company in Korea behind Philip Morris.
- Markets Mild Seven and Wave in the Price Value category in the U.S. with minimal market share.
- We expect to see them continue their expansion plans and view them as a formidable competitor.

2048300567

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PRICING

68. Is the Marlboro Friday announcement having any affect on PM's International business?

- No. Pricing change was a response to the US market circumstances unrelated to international markets.

69. Has Marlboro's image been "tarnished" internationally as a result of "Marlboro Friday?"

- No. Marlboro remains the best selling cigarette in the world, posting more than an 8 billion unit increase from the year before.

70. "Marlboro Friday" indicated that the price gap in the US was too large. Is Marlboro's price gap under review globally?

- Price gaps are managed on a market-by-market basis.
- Ferociously defending the premium segment in all markets.
- Volume continues to grow—Marlboro's international volume increased over 8 billion units in 1993.

71. What are the price gaps per pack in some of our major markets? Are they generally widening or narrowing? Is there a potential problem?

(U)
- In our top 10 income producing markets price gaps between Marlboro and the next most popularly-price cigarette range from a low of 5.6% in Germany to a high of 81.0% in Saudi Arabia. (Saudi situation regarded as an aberration due to the ongoing price war.)
- Next largest price gap occurs in Italy where a 45.2% gap exists with Monital's MS.
- We cannot predict competitors' actions, but we believe this pricing can be managed

2048300568

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

72. Is Marlboro growing as fast as our other brands in Europe?

- Chesterfield was our fastest growing brand last year because of the price war in France.
- Over the past five years, Marlboro was our fastest growing brand.

73. Given PM's experience in the US, will PM try to introduce "discount brands" into the international arena?

- Price tiers in the cigarette markets outside the US have existed for decades. We have brands in numerous tiers.

74. Given that PMI's markets' margins are slimmer than in the US, how does PMI intend to expand profitability?

- Earnings grow in all our regions primarily through volume growth.
- Growing brand franchise and aggressively reduced the cost of doing business in our established markets (primarily OECD).
- In other markets, increasing volume through organic growth and strategic acquisitions.

EXPORTS

75. Why has international export volume growth slowed?

- We moved production from the US to our new factory in Torbali, Turkey to avoid discriminatory duty on US cigarettes (90%).
- Our year on year growth rate in Japan has slowed after the initial surge from market access.
- We are again showing growth with the recent introduction of the new brand "Next."

76. How much does PM USA charge for export production?

- Arm's length pricing.
- We will not disclose specifics.

2048300569

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

OPERATING MARGIN

77. As Eastern Europe and other lower margin markets continue to open, will PMI operating margin growth slow down or even begin to decline?

- A reduction in operating margin does not mean a slowing of profit growth. Our operating margin growth will slow as we expand into lower margin markets.
- Our core business remains strong and our investments in these new markets will show good returns in the long term.

78. What are our most profitable markets and what percent of income comes from the top five?

- Our top five markets are Germany, Japan, Italy, France and Turkey.
- Accounts for 50% of our income.

FISCAL POLICY

79. Has smuggling increased in Canada as a result of the higher Canadian cigarette taxes?

(U)
- Due to the reported increase in contraband activity, the Canadian government lowered federal excise taxes on cigarettes in February.
- Consumers now have returned to purchasing their cigarettes from legitimate retail outlets and smuggled cigarettes has virtually disappeared.
- This move acknowledges what we have been contending all along; the only thing that results from exorbitantly high increases in excise taxes are windfall profits for smugglers.

2048300570

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MARKETING

80. I read in the paper that PM was fined in Hungary for illegal marketing practices. Was this the case, and if so, why?

- PM was fined as were several other companies. We have decided to appeal the case in which the government's "competition bureau" ruled that certain PM advertisements in newspapers were "anti-competitive."
- In most of Central/Eastern Europe, existing legislation governing advertising needs to be adapted to the realities of a free-market economy.

(Further comment is inappropriate as litigation is on-going.)

SMOKING RESTRICTIONS

81. With the increase in marketing and public smoking restrictions, is PMI in danger of losing some of its business?

- Not necessarily. PM has grown in markets where advertising is severely restricted (Italy, since 1962 and Finland, since 1978).
- Advertising has been virtually non-existent in Central and Eastern Europe, where we have been doing business for over 20 years.
- PMI enjoyed growth in 1993 in most major markets. Total international volume was up 9% in 1993.

(Con'd)

2048300571

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Note: IARC (International Agency for Research on Cancer): Currently, there is a case-control study which has been started in 11 collaborating centers in Europe to investigate the relationship between exposure to environment tobacco smoke and to other environmental risk factors (occupational exposures, air pollution, diet) and the risk of lung cancer in subjects who have never smoked tobacco. The final published copy is not expected until early 1995, however, results may be revealed in late 1994. (No leaks have yet surfaced.)

ADVOCACY ISSUES

82. The "anti-industry" forces have appeared to be "gaining steam" worldwide. Has this affected your international business as it has in the US.

- These groups have expanded their efforts.
- Our business continues to grow.
- A good example is Australia, the most extreme anti-smoking environment in the world. Our brand Longbeach is now the No. 1 brand in the market.
- PMI enjoyed growth in 1993 in most major markets. Total volume was up 9% in 1993.

MARLEY

83. What is the company's position on its "Marley" trademark in France? Is the name being used in anticipation of marijuana legalization?

- PM has registered the trademark "Marley" in France.
- We chose the name "Marley" for competitive reasons.
- The name was not chosen with marijuana legalization in mind.
- We do not feel that Bob Marley Music Inc.'s exclusive claim of the name "Marley" across varied product lines is a valid one.
- It is our opinion that the French laws will not support the claims by Bob Marley Music Inc.

2048300572

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

LAST MINUTE
Q & A's

2048300573

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LAST MINUTE Q&A'S

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LAST MINUTE Q&A'S

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LAST MINUTE Q&A'S

GENERAL RESPONSE TO HOSTILE QUESTION

- We've learned over the years that there is no useful purpose to be served in debating an issue of this nature in this forum.
- If you have a question about our operations, I'd be happy to respond.

INDUSTRY SITUATION RESPONSE

- Controversy has surrounded the tobacco industry for many years.
- While the current problems may seem dire, they are simply the latest stage in the evolution of the tobacco controversy.

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Q&A Developed From Waxman Hearings

Every reliable health and medical organization in the country from the Surgeon General and the Center for Disease Control to the AMA agree that smoking kills almost half a million people a year. That is equivalent to two full jumbo jets crashing every day with all aboard lost. How do you sleep at night with this knowledge. How do you look at yourself in the mirror in the morning?

- The cigarettes PM manufactures and markets are legal products. We make quality cigarettes, market them to informed adults, and I am proud to be associated with the company. There are government mandated warning labels on every pack of cigarettes we sell and every advertisement we place. We acknowledge there are health risks associated with smoking, just as there are with every other human activity -- taking a shower, driving here on I-90, eating, you name it. Smoking is a matter of informed choice. We don't coerce people to smoke and we don't prevent them from quitting.

Do you agree with the Surgeon General's estimate that 400,000 people die every year from smoking?

- I respectfully disagree with the Surgeon General. We acknowledge that smoking is a risk factor for certain diseases. But the figures on smoking and disease and mortality come from studies of epidemiology, which is to say the figures are estimates derived from interview data. People are asked about the smoking habits of their uncles and aunts from forty years ago, which could be before the informants were born, and all of those data are tabulated, averaged, manipulated and added together with umpteen other epidemiological studies and finally they run it through a computer and pull a number out. It is not the kind of figure I would depend on.

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Q&A Developed From Waxman Hearings (CONT'D)

Does smoking cause lung cancer?

- No one knows what causes cancer. There is some evidence of a statistical association between smoking and lung cancer. Smoking is a risk factor for lung cancer. Some foods and drinks and behaviors are also risk factors for the same disease. But scientists apply the term "causation" only after evidence is obtained from very carefully controlled experimental designs, and there has been no such evidence offered.

If smoking were shown, to your satisfaction, to cause lung cancer, what would you do?

- If there were a substance in one of our products that was a proven cause of lung cancer, we would remove that substance from the product.

I read that you used to smoke, but quit. Why?

- I believe in personal choice. It was my personal choice.

How would you feel about your children or grandchildren smoking?

- I don't think anybody's children or grandchildren should smoke. Nor would I want them to drink alcohol, drive cars, vote, or be involved in sexual activity that we think of as reserved for adults. Smoking is an adult choice. Once my kids become adults, then smoking is something I'd like them to make an informed choice about.

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Q&A Developed From Waxman Hearings (CONT'D)

Let's talk about seducing kids into smoking through advertising. Don't you think that the Joe Camel campaign attracts kids to smoking through the use of a cartoon character that appeals to children?

- Well, that's a competitor's campaign, not ours. But I would say that just because kids like Snoopy the dog, and Met Life uses Snoopy in it's advertising doesn't mean Met Life is trying to lure kids into buying life insurance. Or that the Pink Panther is getting kids to spend their allowance on Owens Fiberglass insulation.

I was a smoker and I was addicted. You were a smoker. Didn't you feel at all addicted to cigarettes.

- No. I know some people find it hard to quit, just like other people find it hard to give up chocolate ice cream or a second cup of coffee in the morning, but I didn't. I just decided one day not to smoke and that was it.
- Let me enlarge a little on this notion of addiction. It is counter to common sense and just plain wrong to equate cigarette smoking with addiction to drugs like heroin and cocaine. In recent testimony before the Congress, the heads of the nation's largest tobacco companies -- including Bill Campbell from PM USA -- addressed the issue of nicotine and addiction. Here a couple of points they made.
- First, in a slight role reversal, the Chairman of RJR put the question to the congressional subcommittee as to which of two airplanes they'd choose to fly on. On one, the pilot had just smoked a cigarette. On the other, the pilot had just downed a few drinks, or snorted cocaine, or shot up on heroin. Which flight would you take: The answer is obvious, and that's because cigarettes are not mind altering. Their effect is much more comparable to a cup of coffee.

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Q&A Developed From Waxman Hearings *(Cont'd)*

- It was also pointed out to the members of Congress on the subcommittee that the development of filter tipping that reduced tar and nicotine, and, subsequently, low-tar cigarettes, were both in response to public demand. Addicts, on the other hand, demand increasing dosages, but here is a group of consumers that have demanded reduced levels of tar and nicotine, and as a result of their demands nicotine yields have been reduced by two-thirds.

Does PM add nicotine to cigarettes at any point in the manufacturing process?

- PM doesn't add nicotine to cigarettes. In fact, cola manufacturers do add caffeine to cola drinks, and some wine makers do "fortify" some wines with alcohol, but we do not add or manipulate nicotine in cigarettes.
- If you compare today's cigarettes to a cigarette manufactured simply from tobacco and paper only, in today's cigarette:
  - the filter reduces nicotine by 35-45%;
  - ventilation (holes in paper) reduces nicotine 10-15%;
  - the reconstituted tobacco sheet process reduces nicotine by 20-25%
  - the expanded tobacco process (analogous to puffed cereal) also reduces nicotine.
- These attributes and processes combine to reduce nicotine by 50% compared to a cigarette made from tobacco and paper only.

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Q&A Developed From Waxman Hearings *(CONT'D)*

- Moreover, we measure nicotine at only two points in the manufacturing process: the content of the leaf prior to blending and the content of nicotine in the cigarette after it is manufactured.
- There is nicotine that is in the denatured alcohol we use in the manufacturing process. It is there because the Bureau of Alcohol, Tobacco and Firearms requires it to be, to make the alcohol unpotable. But the amount is so small as to be undetectable in the finished cigarette using standard analytical methods. The amount of nicotine we're talking about here is at most a few ten-thousandths of one percent.
- Also in the manufacturing of reconstituted tobacco, water is added to the tobacco, and water soluble components including nicotine are taken out. The tobacco cellulose remains. That cellulose is processed into a sheet and the water soluble components are then put back into the sheet. This process results in 4 percent less nicotine at the end than at the beginning of that process.
- If today's critics of the cigarette industry want us to stop the processes we currently use and go back to the way cigarettes used to be manufactured, the result would be cigarettes with 40 mg. tar and 2.8 mg. nicotine -- a 300 to 400 percent <u>increase</u> in the amounts of tar and nicotine over the levels the cigarettes we actually produce today.

Let me get this straight. PM only tests nicotine at the leaf stage and then only after the cigarettes are made?

- Correct.

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Q&A Developed From Waxman Hearings *(CONT'D)*

So, after a whole day's run of say a billion cigarettes worth say $50 million, you check the finished cigarettes and say, "Oops, too much nicotine in half of them and not enough in the others, we've got to toss the whole day's production?

- Well, no. Because we do know the nicotine content of the leaf going in, we can accurately predict -- given the nicotine loss at various manufacturing stages -- the amount of nicotine in the end product. We don't just throw a bunch of tobacco in the hopper and begin a production run and hope it comes out OK. We're a little smarter than that.

Did Dr. DeNoble do research at PM which showed nicotine was addicting and which, because it did show exactly that, PM suppressed?

- The research Dr. DeNoble did at PM indicated that nicotine is a positive reinforcer on the order of caffeine in coffee and soft drinks, or saccharine, or water, not an addictive drug.

But didn't PM prevent Dr. DeNoble from publishing his findings?

- The cigarette business is highly competitive and confidentiality provides a competitive advantage. As the saying goes, "Does Macy's tell Gimbels?" Nevertheless, Bill Campbell told the Waxman sub-committee that PM would release Dr. DeNoble from his confidentiality obligation, and that Dr. DeNoble would be free to testify before the committee.

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Q&A Developed From Waxman Hearings *(CONT'D)*

- Let me add one more point about "addiction" here. The term "addiction" is being bandied around today. Today everything is being called addictive from cigarettes and coffee to video games and eating. This is a dangerous practice, because it trivializes the very real problem of drug addiction. A kid who doesn't know any better says, "Oh, Congressman Waxman says that cigarettes are no different from heroin. Well, hey, my parents smoke cigarettes, and they're OK, so I might as well go ahead and try that heroin that Bobby offered me yesterday."

Given the death statistics not only on direct smoking, but the thousands of people who die from second-hand smoke, don't you think it would be better if smoking were banned from all public places?

- No, we believe in accommodation. But, if the anti-smoking industry wants to outlaw cigarettes and create a new Prohibition, then they should have the courage to attempt to do so, and to suffer the consequences that would surely follow if they were successful.

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Q&A Developed From Waxman Hearings *(CONT'D)*

- But they want it both ways. They want a smoke free society by the year 2000, but without taking the responsibility of declaring cigarettes illegal. The point was made to the Waxman committee that the anti-smoking industry is attempting to achieve "back-door" prohibition through:
  - — smoking bans
  - — punitive taxes
  - — advertising bans
  - — forcing manufacturers to make cigarettes consumers are not interested in purchasing
  - — putting tobacco under FDA regulation as a drug.
- If the anti-smokers really want a total ban on smoking, let them go ahead and try one. It would be a return to Prohibition. Some people will quit in order to comply with the law. But many, many people will buy their cigarettes on the black market out of the trunks of cars instead of over the counter. The cigarette industry will not be in the hands of responsible manufacturers but in the hands of criminals who genuinely don't care whether they are selling the product to young people or not. If cigarettes are banned by the government, the country will have a permanent crime problem on its hands.

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Q&A Developed From Waxman Hearings *(CONT'D)*

In March, Dr. Kessler, head of the FDA, showed a chart at congressional hearings which indicated that as tar levels in cigarettes decreased in recent years, nicotine levels were increasing. Are you upping the nicotine to keep smokers addicted to low tar products?

- Dr. Kessler's data were simplified and not complete. He looked at three categories of cigarettes -- full flavor, low tar and ultra low tar. When a sales-weighted analysis was done of the approximately 500 commercially available cigarette brands, it was found that as tar levels have decreased, so have nicotine levels. Those findings are in line with the 1988 Surgeon General's report which shows that nicotine levels declined by two-thirds between the 1950's and 1990's.
- The lowering has slowed down in the past ten years but it is still going down. Tar and nicotine are going down together, as they always have.

Isn't it true that nicotine levels can be increased through the blending process?

- Use of the phrase "nicotine levels" is inaccurate. The nicotine concentrations in the cigarette cylinder should not be confused with nicotine yields, the amount actually consumed by the smoker. Concentration is not correlated with yield because yield is primarily a function of the filtration system, the ventilation and the density of the tobacco. To reduce yield, in addition to filtering out tars and nicotine and diluting the smoke through ventilation, the density of the tobacco is reduced by "puffing" it in a process similar to the "puffing" of rice in cereals.

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Q&A Developed From Waxman Hearings *(CONT'D)*

O.K., let me rephrase the question. Isn't it true that nicotine yields can be increased through the blending process?

- We create our tobacco blends for flavor, not for nicotine yields.

You're not answering my question.

- Yes I am. I'm just not answering it the way you want me to. We establish at the beginning of the manufacturing run the tar level specified for the brand and packing being manufactured, the blend we use produces the specific flavor and tar yield for that product, the nicotine follows the tar yield, and that's it. We don't have someone at the end of the production line with a Super Soaker squirt gun full of nicotine shooting at the cigarettes as they whiz by in order to jack up the yield and hook Congressman Waxman on our cigarettes.

Isn't it true that PM has a secret project called "Hamlet" which developed a fire-safe cigarette, but you haven't released it because you don't think it will sell?"

- It is true that we conduct research into the ignition propensities of cigarettes, and it's true that one such project during the 1980's was dubbed Project Hamlet, and it's true that because the project involved proprietary information, we did not walk around chatting it up with the press. But it is not true that the project produced a fire-safe cigarette the marketing of which we suppressed. In fact, there is not yet an agreed upon definition of what constitutes "fire-safe." We don't think the fabric used in present federal studies is a good scientific model. We're concerned about fires, and we're working on the problem, but we're not there yet. When we develop a better model, we will be closer to developing a fire-safe cigarette.

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Q&A Developed From Waxman Hearings *(CONT'D)*

Will you release all of the materials related to Project Hamlet to the Waxman committee?

- What we learned in Hamlet is proprietary information in a very competitive industry. We have not yet found a solution to the fire-safe cigarette problem. I am releasing this information now to you and this audience: we have not succeeded in finding a solution to the fire-safe cigarette problem..

Is the Justice Department coming after you for failing to market fire-safe cigarettes?

- Not to my knowledge.

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"DAY ONE" CHARGE TOBACCO COMPANIES "SPIKE" CIGARETTES WITH NICOTINE TO KEEP SMOKERS "ADDICTED"

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On February 28, 1994 the ABC news program "Day One" alleged that cigarette manufacturers add significant quantities of nicotine to their products in order to keep smokers "addicted."
- On March 24, 1994 PM initiated a libel suit against ABC. In the complaint PM charges that ABC knowingly made a number of false allegations against PM and that both PM Companies Inc. and PM USA have been severely damaged by the false and defamatory statements made by ABC.
- PM is seeking $5 billion in compensatory damages and $5 billion in punitive damages from ABC.

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"DAY ONE" CHARGE TOBACCO COMPANIES "SPIKE" CIGARETTES WITH NICOTINE TO KEEP SMOKERS "ADDICTED" *(CONT'D)*

Q&A

How does PM respond to the charge made on the news program "Day One" that PM artificially increases the nicotine content of its cigarettes?

- PM does not increase the nicotine content of its cigarettes.
- Nicotine occurs naturally in tobacco. In fact, nicotine levels in raw, unprocessed tobacco are higher than those found in the reconstituted tobacco sheet and in the finished cigarette.
- Tar and nicotine levels are interrelated. Generally, when tar levels are reduced, nicotine levels are reduced proportionately.
- In response to consumer preferences, the overall nicotine delivery in our cigarettes has declined by more than 50 percent over the last 40 years.
- We manufacture products covering a range of tar and nicotine levels. These levels are published in all of our advertisements so smokers know what levels they're smoking. We also must monitor the manufacturing process to ensure that the brands we manufacture contain consistent levels of tar and nicotine.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

"DAY ONE" CHARGE TOBACCO COMPANIES "SPIKE" CIGARETTES WITH NICOTINE TO KEEP SMOKERS "ADDICTED" *(CONT'D)*

Is there any distinction in regulatory terms between adjusting the levels of nicotine and adjusting the levels of caffeine?

- Both caffeine and nicotine are naturally occurring substances found in coffee beans and tobacco respectively.
- Manufacturers of these products produce coffee and cigarettes with varying levels of these substances reflecting a wide variety of consumer preferences.
- Federal Government does not regulate the amount of the substances in these products but the FTC does require that the nicotine content must be reported in cigarette advertisements.

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"DAY ONE" CHARGE TOBACCO COMPANIES "SPIKE" CIGARETTES WITH NICOTINE TO KEEP SMOKERS "ADDICTED" *(CONT'D)*

Why did PM file a $10 billion lawsuit against ABC?

- We filed a lawsuit against the American Broadcasting Companies and several ABC employees for false and defamatory statements made on ABC's *Day One* news show and other news programs.
- The essential allegation by ABC on those broadcasts was that cigarettes are ***"artificially spiked"*** with nicotine during the manufacturing process ***"in order to keep people smoking."***
- This allegation and similar ones made by ABC are not true, and ABC knows that they are not true.
- ABC was aware of the facts prior to the February 28 *Day One* broadcast. ABC chose to ignore the facts. As a result of the false and defamatory statements broadcast by ABC among other things:
  - — the price of PM stock declined dramatically;
  - — Members of Congress called for investigations into the cigarette-manufacturing process;
  - — Commissioner Kessler of the FDA expressed his concern;
  - — President Clinton stated "that really bothered me when I heard that more nicotine was going in to make sure that people were hooked."
- We're seeking redress for the harm caused by ABC's false claim.
- The action we took on March 24 is the most recent example of PM standing up for itself, our shareholders and our consumers.

Do you think PM will win its lawsuit against ABC?

- No one can predict with certainty what the outcome of the suit will be, but both our counsel and I believe that we have a meritorious case.

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"DAY ONE" CHARGE THAT TOBACCO COMPANIES ADD TOXIC INGREDIENTS TO CIGARETTES

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On March 7 the ABC news program "Day One" focused on the assertion of anti-smokers that tobacco manufacturers add toxic ingredients to their products.
- The program criticized the Department of Health and Human Services for having failed to do anything about these so-called "toxic" ingredients.

Q&A

How does PM respond to the charge made on the news program "Day One" that PM employs harmful non-tobacco additives in the manufacture of its cigarettes?

- We are not.
- Cigarette manufacturers have been supplying the Department of Health and Human Services (HHS) with ingredient information for more than a decade.
- HHS has given no indication that its review of cigarette ingredients has created any basis for concern.
- In addition, six eminent scientists have stated that "the ingredients added to tobacco in the manufacture of cigarettes by the six major US manufacturers are not hazardous under conditions of use."
- "Day One" ignored information supplied by the industry which would have put the issue in a balanced perspective.

Why isn't PM taking legal action against ABC for these charges as it is for the claims made concerning the nicotine content of cigarettes?

- The matter remains under consideration. It should be noted that not every false statement may be the subject of a lawsuit.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

THE FDA INITIATIVE REGARDING ITS JURISDICTION OVER TOBACCO PRODUCTS AS DRUGS UNDER THE FEDERAL FOOD, DRUG AND COSMETIC ACT

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On March 25, 1994, in testimony before Congress, FDA Commissioner David Kessler noted that the FDA had "never stepped in to regulate tobacco products as drugs . . . [because it] never had sufficient evidence."
- He testified that the FDA may now "step in" because of an accumulation of information on two pivotal factors -- the "addictive nature of nicotine" and "the ability of cigarette companies to control nicotine levels."
- If in Kessler's opinion the FDA declares jurisdiction over cigarettes under its present authority, it has a number of options:
  - -- the Agency could remove from the market all cigarettes containing nicotine on the grounds that the cigarettes are new drugs that are not generally recognized as safe and effective;
  - -- it could remove from the market all cigarettes containing levels of nicotine deemed by the FDA to be addictive;
  - -- it could limit the availability of cigarettes to prescription use;
  - -- it could restrict cigarette advertising;
  - -- it could restrict cigarette ingredients as part of the new drug approval process.

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THE FDA INITIATIVE REGARDING ITS JURISDICTION OVER TOBACCO PRODUCTS AS DRUGS UNDER THE FEDERAL FOOD, DRUG AND COSMETIC ACT *(CONT'D)*

Q&A

What is PM doing about the FDA investigation into whether the Agency has the authority to regulate cigarettes as drugs?

- We intend to cooperate fully with the FDA investigation and have already been doing so. We voluntarily opened our manufacturing operations to the FDA in a good faith effort to resolve the false allegation that we add nicotine or control its level in our cigarettes.
- While we intend to cooperate fully, it is our position that cigarettes do not appropriately fall under the jurisdiction of the FDA because cigarettes are neither a food nor a drug. That was also until recently the position of the FDA.
- The presence of nicotine does not make cigarettes a drug or smoking an addiction. People can and do quit smoking. According to the 1988 Surgeon General's report, there are more than 40 million former smokers in the US and 90 percent of those who quit did so on their own, without any outside help. This does not fit the profile of addiction.
- If the FDA were to expand its definition of a drug to include cigarettes because of the nicotine which naturally occurs in tobacco, it would also have to include coffee because of the caffeine which occurs naturally in coffee beans.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

THE FDA INITIATIVE REGARDING ITS JURISDICTION OVER TOBACCO PRODUCTS AS DRUGS UNDER THE FEDERAL FOOD, DRUG AND COSMETIC ACT *(CONT'D)*

How do you respond to the FDA's statement that there is growing evidence that tobacco companies deliberately maintain the level of nicotine in cigarettes at addictive levels?

- We fundamentally disagree with their outrageous statements.
- Tobacco is not "addicting" as evidenced by over 40 million people who have quit smoking without any professional help.
- Nicotine is a naturally occurring substance in tobacco. There is nothing done in PM's tobacco processing or cigarette manufacturing that increases nicotine in the tobacco blend. Conversely, the manufacturing process results in less nicotine in the final product than exists in the unprocessed tobacco.
- PM's products provide consumers with a range of choices in tar and nicotine levels. Consumer taste preferences resulted in products with lower levels of both tar and nicotine.
- The overall nicotine content in cigarettes has declined by more than 50% in the last 40 years.
- Nicotine levels for all cigarettes are measured pursuant to FTC methods and publicly displayed in every cigarette advertisement, in accordance with law.
- Both FDA and the courts have recognized that cigarettes should not be regulated by the FDA. Nothing has occurred which warrants a change in this policy.
- Each year all cigarette ingredients are reported to the Department of Health and Human Services as required by law.

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THE FDA INITIATIVE REGARDING ITS JURISDICTION OVER TOBACCO PRODUCTS AS DRUGS UNDER THE FEDERAL FOOD, DRUG AND COSMETIC ACT *(CONT'D)*

How does PM respond to proposals that cigarettes be treated like a drug and regulated by the federal Food and Drug Administration?

- When people say that the FDA should regulate cigarettes the way the Agency regulates prescription drugs, they're essentially talking about Prohibition.
- Prohibition didn't work for alcohol in the '20s, and it won't work for tobacco products in the '90s.
- No basis for treating cigarettes as if they were an addictive drug. They do not alter mood or impair perception.
- More than 40 million Americans have quit smoking and, according to the American Cancer Society, 90% did so without the aid of a formal smoking cessation program. They simply decided to quit and did so.
- This does not fit the pattern of addictive drugs.

What is the prospect for enactment of legislation to place tobacco products under the jurisdiction of the Food and Drug Administration (FDA) or Consumer Product Safety Commission (CPSC)?

- It is unlikely that tobacco products will be placed under the jurisdiction of the FDA or the CPSC.
- Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury Department, and the Agriculture Department already have extensive regulatory authority over various activities of the industry.

2048300596

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

- In a broadcast on March 26, 1994, "60 Minutes" correspondent Mike Wallace alleged that cigarette manufacturers are capable of producing a fire-safe cigarette, but have refused to do so because of possible adverse product liability consequences.
- Wallace referred to a number of PM documents to support his allegation.

Q&A

How does PM respond to the charges made by Mike Wallace on "60 Minutes" that cigarette manufacturers are capable of producing "fire-safe" cigarettes but have failed to do so?

- The allegations are untrue. PM does not now have, nor has it ever had, the capacity to manufacture a "fire-safe" cigarette.
- We know of no cigarette now on the market which could be characterized as "fire-safe."
- Indeed, there is no reliable test or standard to determine what is a "fire-safe" cigarette.
- PM has conducted its own research as well as worked with others in industry and government to develop such a test and standards. We remain committed to this effort.

How can PM contest this issue, given that Wallace used PM documents to support his claims?

- These documents do not support Wallace's claims. The documents show that PM has been working on this issue for some time and are perfectly consistent with our position that we do not have a "fire-safe" cigarette.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

"FIRE-SAFE" CIGARETTES, "60 MINUTES," MIKE WALLACE *(CONT'D)*

What is PM USA doing to produce a commercially marketable "fire safe" cigarette? What do you think our competitors will do?

- In 1990, Congress, instructed the Consumer Protection Safety Commission (CPSC) to provide a report on whether a commercially feasible "fire-safe" cigarette could be developed.
- PM USA, as well as other members of the industry, participated in the Technical Advisory Group to the CPSC that did the feasibility study. CPSC has submitted its report to Congress.
- Our R&D dept. is continuing to work on the issue of reducing the ignition propensity of cigarettes.
- Don't know what competitors will do.

How do you respond to the claims that Virginia Slims, or any extension of the Virginia Slims brand family, are "fire safe?"

- PM does not now have, nor has it ever had, the capacity to manufacture a "fire-safe" cigarette.
- We don't know how "60 Minutes" made that determination.

Would you comment on the Justice Department investigation into the allegation that the cigarette manufacturers are conspiring to keep a fire-safe cigarette off the market?

- PM has received a civil investigation demand from the Antitrust Division of the US Department of Justice in an investigation of such an allegation. PM has not engaged in such activity either with others or alone.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

WAYS AND MEANS COMMITTEE VOTE TO RAISE FET $1.25 PER PACK

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On March 22, 1994 the Health sub-committee of the House Ways and Means Committee voted to increase the federal excise tax on cigarettes $1.25 per pack.
- Revenue from the proposed tax would be used to fund national health care reform.
- If enacted, the federal excise tax on cigarettes would rise to $1.49 per pack.

Q&A

How is PM responding to the recent House Ways and Means sub-committee vote to increase the federal excise tax on tobacco $1.25 per pack?

- PM supports the principle of health care reform but we continue to oppose any increase in federal cigarette taxes.
- High taxes on cigarettes to fund health care reform unfairly target one group of consumers to pay the costs of a major new program that will presumably benefit all Americans.
- Increasing the federal cigarette tax will cost jobs. According to an analysis of data prepared by Price Waterhouse, a $1.25 increase in the federal cigarette tax will cost 490,000 jobs in tobacco and related industries. The President's proposed 75-cent increase would cost 275,000 jobs.
- The proposed increase in the FET would cause a reduction in cigarette sales and thus reduce the excise tax revenue collected by the states.

(Cont'd)

2048300599

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

WAYS AND MEANS COMMITTEE VOTE TO RAISE FET $1.25 PER PACK (CONT'D)

- An increase in the FET would increase retail store crime by making cigarettes a more attractive target for thieves. When Canada sharply increased its cigarette tax, the result was a similarly sharp increase in theft and smuggling.
- Excise taxes are a highly regressive form of taxation, and have their most severe impact on those who earn the least.
- Increasing the cigarette tax to exorbitant levels represents an attempt at social engineering. The sub-committee is clearly attempting to influence personal behavior through higher taxes.
- Preventing a sharp increase in the FET is one of our core objectives this year. We are part of a broad coalition of organizations and businesses that oppose any increase.
- We have received strong, spontaneous support from our employees -- for example, during the March 9 march on Washington -- as well as from growers, other manufacturers, suppliers, distributors, retailers, and from other groups outside the industry. That support continues to grow.

2048300600

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

WAYS AND MEANS COMMITTEE VOTE TO RAISE FET $1.25 PER PACK (CONT'D)

What is PM doing to combat the proposal to raise cigarette excise taxes?

- Our employees have written letters opposing the tax increase.
- Our employee unions and small tobacco farmers throughout the tobacco growing regions of the south and east are also very active against the tax.
- We are supporting a number of economic impact studies in key states which show exactly how many jobs are at stake that are directly or indirectly tied to tobacco.
- As part of the order fulfillment process for the Marlboro Adventure Team, we provided consumers with information about the Federal Excise Tax. 400,000 consumers requested additional information and 80,000 responded by writing letters to their elected officials.
- We are adding to our database as a result of the survey that was sent out with the Bill Campbell letter to the majority of adult smokers.
- We have joined forces with RJR, using their database of names to provide information about the tax issue.
- We are lobbying Congress.
- We have marketing contingency plans that address potential increases in the FET.

Does the sub-committee vote make higher cigarette taxes inevitable?

- No. The vote by the House Ways and Means sub-committee does not represent any final decision. There is a very long way to go and the matter is far from settled.

2048300601

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PHILIP MORRIS' LAWSUIT AGAINST THE EPA

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- In January 1993 the U.S. Environmental Protection Agency (EPA) issued a report claiming that tobacco smoke in the air increases the risk of lung cancer in non-smokers. The EPA report was based upon a review and statistical analysis of selected research studies.
- As a result of its findings, the EPA added ETS to its list of "Group A carcinogens", a list of substances "known to cause cancer in humans."
- PM has filed suit against the EPA in federal court, seeking to force the agency to withdraw its classification of ETS as a "carcinogen."

2048300602

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PHILIP MORRIS' LAWSUIT AGAINST THE EPA *(CONT'D)*

Q&A

Why has PM filed suit a lawsuit against the EPA?

- We have filed suit against the EPA in order to force the Agency to withdraw its classification of ETS as a "carcinogen." We believe the EPA's report on environmental tobacco smoke is seriously flawed.
- There are four basic concerns about the EPA report:
  - -- The Agency did no research of its own.
  - -- It combined the data of other researchers using a questionable statistical technique known as "meta-analysis."
  - -- The EPA lowered its own standards of statistical significance to achieve a result we think was politically motivated.
  - -- The Agency failed to include data from a National Cancer institute study that would have eliminated the statistical significance of the EPA's findings, even by the Agency's own lowered standards of significance.

What is the current status of the lawsuit?

- We are awaiting a ruling by the court on the EPA's motion to dismiss our lawsuit based on a number of technical legal arguments, which do not address the merits. The case cannot proceed further until these issues are resolved.

Does PM expect to win its lawsuit against the EPA?

- No one can predict with certainty the outcome of a legal action of this kind. But if the case is allowed to be tried on its merits, we believe we stand a good chance of victory.

2048300603

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

INDOOR SMOKING BAN PROPOSED BY OSHA

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- The Occupational Safety and Health Administration (OSHA), a division of the Federal Labor Department, has proposed a regulation which would ban smoking in all public buildings and indoor gathering places, including restaurants and bars.
- Under the OSHA proposal, smoking would be permitted only in specially designed enclosed areas which have direct exhaust to the outside.
- Companies that are found to be in violation of the smoking ban could face fines as high as $70,000 per violation.
- It will be approximately a year before the ban can be promulgated. Once the regulation becomes final, building owners would be given another year to come into compliance.

Q&A

How is PM responding to the workplace smoking ban proposed by the Occupational Safety and Health Administration?

- We oppose any rule that mandates blanket indoor smoking restrictions.
- We believe that OSHA's preliminary position is not supported by the scientific data that are already in OSHA's public docket or by the scientific literature in general.
- We intend to offer any expertise or scientific data we may have for inclusion in OSHA's decision-making process.

2048300604

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ADDICTION QUESTIONS

Q&A

How do you respond to Dr. David Kessler's statement pertaining to a so-called 10% sustainable "quitting rate" for smokers?

- Dr. Kessler's remarks seem to contradict other statements made by senior public health officials:
- 1988 Surgeon General's Report stated that over 41 million people in the US have quit smoking — the vast majority without any assistance.
- 1989 Surgeon General's Report made this point even more dramatically, noting that ***"Nearly half of all living adults who ever smoked have quit."***
- This point was reiterated in the 1990 Surgeon General's Report by senior officials including Dr. William L. Roper, Director of the Center for Disease Control.

How would you define addiction?

- Traditionally, the term "addiction" related to a physiological condition, characterized by such phenomena as intoxication, tolerance, and withdrawal. "Addiction" is now used more broadly as seen in the American Psychiatric Association's Diagnostic Manuals, DSM-III and DSM-IIIR.

2048300605

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MELVIN BELLI CLASS ACTION SUIT

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- Melvin Belli [pronounced "BELL-eye"] announced on March 30, 1994 that he and 25 attorneys were filing a federal class action suit against the major cigarette manufacturers, including PM.
- Plaintiffs allege that tobacco manufacturers manipulate the level of nicotine in their products in order to cause their customers to become "addicted."
- Belli estimates that the damages could go as high as $5 billion.

Q&A

How does PM respond to attorney Melvin Belli's class action lawsuit which charges that tobacco manufacturers manipulate the nicotine content of cigarettes in order to get their customers "hooked?"

- There is no merit or substance to the allegations.
- PM does not manipulate nicotine levels in its cigarettes in order to addict smokers.
- PM is suing the ABC news program "Day One" for making such a claim.
- We are maintaining our vigilance about false and misleading statements made about our company. When we encounter such statements, we are vigorous in getting the truth out, up to and including taking legal action.
- Addiction claims have been made previously in many cases tried against the cigarette companies and companies have prevailed in each case.

2048300606

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

BROIN V. PHILIP MORRIS COMPANIES INC. -- FLIGHT ATTENDANTS CLASS ACTION ETS LAWSUIT

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- This suit was filed in state court in Miami, Florida, on October 31, 1991. There are 25 defendants, including six PM entities and the other five major cigarette manufacturers.
- Plaintiffs are 27 flight attendants who allege they have been injured by exposure to environmental tobacco smoke (ETS) in aircraft cabins.
- Plaintiffs have asked that the case be certified as a class action on behalf of all non-smoking flight attendants who work on U.S.-based airlines. The size of this class is estimated to be approximately 60,000.
- Defendants' motion to dismiss the class action allegations was granted by the trial court in May, 1992, but the Florida Court of Appeals reversed that ruling on March 14, 1994.

2048300607

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

BROIN V. PHILIP MORRIS COMPANIES INC. -- FLIGHT ATTENDANTS CLASS ACTION ETS LAWSUIT *(CONT'D)*

Q&A

Does the recent reversal by the Florida Court of Appeals in Broin v. Philip Morris leave the company vulnerable to a large class action law suit?

- The decision by the Third District Court of Appeals did not certify the flight attendants in Broin as a class. All the Court did was reinstate the allegations.
- The Court has not said there is a class, and no class has been certified by the Court of Appeals.
- The issue of the class action is still out on appeal. The Third District Court of Appeal's ruling still must be reviewed and many issues have to be addressed before the issue of the group's status as a class can be taken up and established one way or the other.

2048300609

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER LAWSUIT AGAINST PM RE: SUPPRESSION OF EVIDENCE ON NICOTINE

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On April 5, a shareholders' class action lawsuit was filed against PM in Manhattan federal court charging that the company had violated securities laws.
- The suit, filed by William Steiner, charges that:
  - -- PM intended to deceive the investing public by making statements that cigarettes were not addictive and failing to disclose evidence it had to the contrary.
  - -- PM attempted to mislead the FDA to avoid stringent regulation that would affect costs and profitability.

Q&A

How does PM respond to the shareholder class action lawsuit which charges the company with inflating the price of its stock by suppressing evidence concerning the addictive nature of nicotine?

- The allegations made in the lawsuit are untrue. We did not suppress any evidence.
- There is no basis for treating cigarettes as if they were an addictive drug comparable to cocaine or heroine. They do not alter mood or impair perception.
- More than 40 million Americans have quit smoking and, according to the American Cancer Society, more than 90 percent of them did so without the aid of a formal smoking cessation program. They simply made the decision to quit and did so. This behavior does not fit the profile of those addicted to drugs.

2048300609

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

CLASS ACTION LAWSUIT AGAINST TOBACCO INDUSTRY RE: NICOTINE ADDICTION AND PRESCRIBED NICOTINE PATCHES

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On April 1, 1994, a class action lawsuit was filed against the tobacco industry in the Federal District Court in San Diego on behalf of smokers in the US who have been diagnosed (or will be in the future) as suffering from nicotine addiction due to cigarette smoking, and who have been prescribed and have paid for "nicotine patches" to assist them in trying to break their "addiction."
- The suit names as defendants all the US tobacco companies, their corporate parents, the Hill & Knowlton public relations firm, The Tobacco Institute and the Center for Tobacco Research.
- Plaintiffs are represented in this action by the law firm of Milburg, Weiss, Bershad, Hynes & Lerach, one of best known and most successful plaintiffs' firms in the country.
- The 130-page complaint focuses on the history of the Center for Tobacco Research and tobacco research activities.
- The suit was filed under the Racketeer Influenced and Corrupt Organizations Act (RICO). Plaintiffs seek compensatory damages representing the cost of purchasing nicotine patches and related medical services, as well as treble damages, as provided for in the Act.

2048300610

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

CLASS ACTION LAWSUIT AGAINST TOBACCO INDUSTRY RE: NICOTINE ADDICTION AND PRESCRIBED NICOTINE PATCHES *(CONT'D)*

Q&A

How does PM respond to the class action lawsuit on behalf of smokers who have purchased nicotine patches in an attempt to quit smoking.

- Addiction claims have been made previously in many cases tried against the cigarette companies and the companies have prevailed in each case.
- Let's use common sense.
- There is no basis for treating cigarettes as if they were an addictive drug. Among other reasons, tobacco does not alter mood nor impair perception. Cigarette smokers can and do lead productive lives while smoking.
- More than 40 million Americans have quit smoking and, according to the American Cancer Society, more than 90 percent of them did so without the aid of a formal smoking cessation program. They simply made the decision to quit and did so. This behavior does not fit the profile of those addicted to drugs.

2048300611

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER CLASS ACTION LAWSUIT AGAINST PM RE: "TRADE LOADING"

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On April 4, 1994, a shareholders' class action lawsuit was filed against PM, Hamish Maxwell, Michael A. Miles, R. William Murray and William I. Campbell in the Federal Court for the Eastern District of New York.
- The suit alleges violations of the Securities Exchange Act, and was brought on behalf of all persons who purchased PM shares during the period July 17, 1991 through December 31, 1992.
- Specifically, the suit alleges the company artificially maintained high levels of profitability during 1991 and 1992 through "trade loading," (i.e., shipping more inventory than was needed to satisfy market demand).
- Plaintiffs allege that PM 1993 pricing initiatives were caused in large part by excess inventory built up as a result of trade loading.
- The complaint also alleges that because the company did not disclose the extent and significance of the loading, investors were misled into believing the company's profitability was higher than it actually was, once the excess inventory taken into account.

2048300612

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER CLASS ACTION LAWSUIT AGAINST PM RE: "TRADE LOADING" *(CONT'D)*

Q&A

How does PM respond to the shareholder class action lawsuit which alleges the company inflated profits through "trade loading" in 1991 and 1992? Is it true that shipping excess inventory in 1991 and 1992, led to PM cutting the price of Marlboro and other premium brands in 1993?

- PM's 1993 pricing initiatives had nothing to do with "trade loading." Rather, they were a direct response to the growth of the discount segment at the expense of premium brands.
- PM's actions reducing prices of premium brands in 1993 were undertaken to narrow the price gap between our premium products and competing discount products to a point where consumers would once again base their purchases on brand quality, imagery and preference, rather than on price alone.
- That strategy has been a terrific success. By the end of 1993, Marlboro held 26.8 percent of the retail market, reversing previous share losses and preserving brand equity.
- Our other premium brands, in aggregate, were up 8.5% from August, when we reduced their wholesale list prices.

2048300613

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

LEGAL ACTION RE: THE MARLBORO SIGN IN SHEA STADIUM

SITUATION ANALYSIS/EXECUTIVE SUMMARY:

- Acting at the request of the Mayor, the Parks Department of the City of New York has ordered the Mets to remove the Marlboro sign from Shea Stadium.
- PM's contract with the Mets for the right to use the space runs until 1996.
- The City has refused to modify its demands in negotiations with the Mets and PM.
- As a result, the Mets have filed a petition in State Supreme Court in Queens, asking the Court to determine whether they must comply with the demand of the City -- which is their landlord -- or honor their contractual obligation to PM.

Q&A

How does PM respond to New York City's attempt to have the Marlboro sign removed from Shea Stadium?

- We oppose attempts to limit our right to free speech, and we certainly oppose the City's action.
- PM has met with both the Mets and the Giuliani Administration several times over the past few months regarding the issue. The City has chosen to disregard all options other than the immediate removal of the sign.
- As PM has a legal and binding contract with the Mets, removing the sign is not a realistic option.
- As we await the Court's decision, PM stands ready to continue discussions with the Mets and the City at any time.

2048300614

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

AMERICAN MEDICAL ASSOCIATION (AMA) ALLIANCE WITH HEALTH FOOD STORE CHAIN IN ANTI-SMOKING CAMPAIGN

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On March 31, 1994 it was announced that the AMA had accepted $1 million from the General Nutrition Centers health food store chain. The money is to be used to fund an AMA anti-smoking campaign.
- In return, General Nutrition Centers has the exclusive right to sell an AMA anti-smoking kit costing $70.
- Critics of the arrangement have questioned the kit's effectiveness and high price. The AMA admits the kits have not undergone rigorous scientific testing.
- Dr. Ronald M. Davis, former director of the Surgeon General's Office on Smoking and Health and a member of the AMA's council on scientific affairs, expressed concern about the alliance in light of the FDA's recent investigation into "the inappropriate promotion of dietary supplements."

Q&A

What is PM's position on the AMA's recent alliance with a health food store chain to promote a $70 anti-smoking kit?

- PM believes in free choice and freedom of expression. The AMA and General Nutrition Centers are free to enter into any agreement and promote any product they want.
- It is up to adults to evaluate all of the available information on smoking -- including that which is put out by the AMA -- and make their own decision on whether to continue smoking.

2048300615

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

AMERICAN MEDICAL ASSOCIATION (AMA) ALLIANCE WITH HEALTH FOOD STORE CHAIN IN ANTI-SMOKING CAMPAIGN *(CONT'D)*

Do you believe it is appropriate for the AMA to accept money from General Nutrition Centers in view of the FDA's recent investigation into misleading health food and vitamin supplement advertising?

- Only the AMA can decide whether it is appropriate or inappropriate for it to accept certain funds.

2048300616

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

INFACT

SITUATION ANALYSIS/EXECUTIVE SUMMARY

INFACT, a new player on tobacco issues, launched campaign in May 1993. Formerly known as Infant Formula Action Coalition. (INFACT went against Nestle for selling its infant formula in "Third World" countries without complete information. Then INFACT focused on GE's nuclear power business. In both instances, INFACT claimed victory when each company altered their operations—for business reasons, not as a result of INFACT's activities.) INFACT works with other anti-tobacco groups—particularly Dr. Greg Connolly's Stop Teenage Addiction to Tobacco (STAT) to taint the image of tobacco manufacturers. INFACT launched a postcard campaign in October 1993.

Confidential: To date, more than 10,000 postcards have been received by PM. In addition, INFACT recently started a telephone campaign. As of 4/14/94, PM has received no phone calls.

INFACT plans to launch a "major international boycott of PM," and a national campaign to "get Joe Camel out of retail stores." This activity will be launched on April 19, in 25 cities throughout the US. We assume Richmond will be one of those cities.

Q&A

How do you respond to INFACT's threat to boycott KGF products if PM does not stop undermining public health efforts, and stop marketing and promoting tobacco to children worldwide?

- PM markets its brands to adult smokers — not to children.
- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- PM well understands the importance of all our freedoms—including a free press and speech—that speaks for and to the diversity of the country.
- KGF operates independent of tobacco company. A boycott of our food products is inappropriate.

2048300617

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

RECENT MEDIA REPORTS CHALLENGING THE NUMBER OF PEOPLE EMPLOYED IN THE TOBACCO INDUSTRY

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- On April 14, 1994, the *Wall Street Journal* printed a front-page story with the headline "Tobacco's Troubles Jeopardize the Jobs of Surprisingly Few."
- *Journal* staff reporter Helen Cooper alleges that the tobacco industry is not as important economically to tobacco states like North Carolina or Virginia as it once was.
- The article terms the tobacco industry in North Carolina "a wisp of its former self," and quotes a Charlotte-based economist as saying "You'd be surprised at how small the tobacco industry really is."
- The article cites U.S. Department of Commerce statistics reporting that tobacco accounts for 4.3 percent of North Carolina's gross state product, down from 11.6 percent in 1977. In Virginia, tobacco product manufacturing contributed 2.1 percent of gross state product, down from 5.9 percent in 1997. Similar trends in other tobacco states are noted.
- The article also claims that there are far fewer people working in tobacco manufacturing than in the past. The writer acknowledges that greater efficiencies in tobacco manufacturing account for much of the job loss.

2048300618

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

RECENT MEDIA REPORTS CHALLENGING THE NUMBER OF PEOPLE EMPLOYED IN THE TOBACCO INDUSTRY *(CONT'D)*

Q&A

How does PM respond to the *Wall Street Journal's* claim that the tobacco industry is not as potent an economic force as it once was in the South?

- Estimates based on data compiled by the accounting firm of Price Waterhouse indicate that approximately 2.3 million U.S. jobs are created by the tobacco industry. Clearly, the tobacco industry makes an important contribution to the entire U.S. economy.
- The industry is particularly important to the economies of those states where tobacco is grown and cigarettes are manufactured. To state otherwise belies the obvious.
- The *Wall Street Journal* article only focused on those jobs related directly to tobacco growing and manufacturing. According to the same article, 500,000 people in North Carolina work in the retail industry. Many of those retail jobs are directly dependent upon the tobacco industry.
- The fact that the industry may employ fewer people now than it did 30 years ago does not mean it is any less vital as an economic force. In many ways, remaining jobs have become even more important to the economic vitality of the region.
- Many of the tobacco jobs that could be lost due to an increase in the FET or stricter tobacco regulation are manufacturing jobs, the very kind of jobs we are trying to preserve in the U.S. By contrast, many of the newer jobs out-pacing tobacco employment are in the service sector.

2048300619

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING

SITUATION ANALYSIS/EXECUTIVE SUMMARY

- Proponents - For the past three years, activist church groups have submitted shareholder resolutions relating to Kraft's trading on the National Cheese Exchange. The proponents the first two years were the Missionary Oblates of Mary Immaculate. ("Oblates" are orders of lay persons who have dedicated their lives to the church.) This year, the Sinsinawa Dominican Order, which was a co-filer in 1993, is the primary filer, the Missionary Oblates is a co-filer. The Sinsinawa Dominicans are located in Sinsinawa, Wisconsin, while the Oblates do not seem to have any particular nexus with a dairy geography.

- Reason for Involvement - In the past 5 to 8 years, decreases in the federal support price for milk have resulted in a degree of volatility for milk prices that is typical of agricultural markets but unfamiliar to dairy farmers. This has caused increased focus on the market which most visibly correlates with the prices farmers receive for milk -- the National Cheese Exchange. Farmers have blamed the Exchange for the volatility, and -- since Kraft has been the principal seller of cheese on the Exchange for the past several years -- have blamed Kraft when prices decline. The simplistic explanation that when Kraft sells, dairy prices decline, has appealed to activists who are not knowledgeable about the complexities of supply and demand conditions in the dairy industry.

2048300620

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING *(CONT'D)*

- History of Proposals - In 1992, the Missionary Oblates withdrew its proposal on condition that PM and KGF representatives agree to meet with their representatives. The meeting was unproductive and generated adverse publicity for Kraft in Wisconsin. In 1993, after PM sought a no-action letter from the SEC, the Oblates again withdrew its proposal on condition of a meeting. The 1993 meeting was relatively cordial and caused no adverse consequences. However, the 1994 proposal repeated the errors and misconceptions contained in the earlier proposals. Since it seemed evident that everything we said had fallen on deaf ears, a decision was made to seek a no-action letter but not have a third meeting. Based upon a current policy controversy which has the SEC in court, the agency did not issue a no action letter resulting in the publication of the proposal.

THE PROPOSAL(S)

Some details have varied over the years, but the basic premise and objective of the proposals have not changed.

- The premise has been the assumption that the price the farmer receives for milk is a consequence of Kraft's sales of cheese on the National Cheese Exchange.
- The objective has been to require Kraft to make business decisions that will cause the farm-gate price for milk to increase.

The 1994 proposal asks that the company engage in the following actions:

- Cease trading of the Exchange.
- Take "extraordinary" measures to influence government policies purportedly for the purposes of raising and stabilizing milk prices, insuring competition among dairy processors, and insuring the survival of "family-operated" farms.

2048300621

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING *(CONT'D)*

OUR RESPONSES TO THE PROPOSALS

The basic premise is wrong. The prices for milk and cheese are functions of a number of interrelated variables. In general terms, the factors are supply and demand, together with governmental regulation which may influence either or both of them. When the supply of milk exceeds the demand for dairy products, prices of all dairy commodities decline; the inverse is also true.

- For example, with extremely wet weather in the midwest last summer, milk production declined. Prices of both milk and cheese rose. Transactions on the Exchange were not the "cause" of the rise in milk prices; rather, the decline in the supply of raw milk caused an increase in prices for all dairy commodities.

The objective is impossible. Kraft cannot, does not and should not sell cheese on the Exchange with an intent to affect prices.

- "Cannot" -- Kraft makes about 6% of the natural cheese in the United States and uses less than 20% of the country's natural cheese and 11% of its milk. Kraft competes in an industry with many other large organizations, both manufacturers such as ConAgra and Borden and cooperatives such as MidAm, AMPI and Land O' Lakes. It is obvious that no company has the market power to set, dictate or direct commodity prices. Kraft buys and sells commodities at the prices determined by a highly competitive market.
- "Does not" -- Kraft engages in transactions on the Exchange in order to balance its dairy supply and demand. Kraft's legitimate and rational business needs currently make it more likely that Kraft will sell rather than buy cheese on the Exchange. Other traders, with different business needs and strategies, may adopt other practices. In any event, it is the supply-demand balance of the total industry, not the supply-demand balance of any single company, that determines prices.

2048300622

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING *(CONT'D)*

- "Should not" -- Since Kraft lacks market power, it could not set price without engaging in collusion in violation of the antitrust laws. Federal and state law enforcement authorities have repeatedly investigated the Exchange and have repeatedly concluded that no such violations occurred.

The proposed actions are ill advised and counterproductive.

- The proposal asks that Kraft become the only major cheese company that does not -- and the only cheese company that may not -- trade on the Exchange. This would result in a significant competitive disadvantage.
- Markets set prices on the basis of available information. Prohibiting Kraft from participating in Exchange transactions would deprive the cheese market of valuable information. There is no foundation for suggesting that the result of such a prohibition would be a market which more accurately reflects the value of cheese.
- The idea that governmental action to raise and stabilize prices somehow "insures competition" is absurd. Such actions may protect less efficient and productive competitors, but economic protectionism is not pro-competitive in any way.
- The decline in the number of dairy farms -- and all other types of farms -- has been proceeding for decades. Continuous increases in productivity have not been offset by equivalent increases in consumption. If prices were somehow raised as the proponents desire, productivity improvements would continue unabated, but consumption would decline.

2048300623

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING *(CONT'D)*

Q&A

Why does Kraft insist on participating on the Exchange?

- Engages in transactions on the Exchange to balance its dairy supply and demand. Currently, we are selling more than buying to ensure our customers have a consistent, high-quality supply.
- This proposal asks that Kraft become the only major cheese company to be restricted from trading on the Exchange which would result in a significant competitive disadvantage.

Isn't the real reason Kraft participates on the Exchange is to dump cheese and thereby force cheese and milk prices downward?

- Cannot influence prices because we do not have the market power to set, dictate, or direct commodity prices.
- Competes with many other large organizations.
- Represents only 6% of the total US natural cheese production and uses less than 20% of all natural cheese and 11% of all milk produced. It is the supply-demand balance of the total industry and not any single company that determines Exchange prices.

Why won't Kraft exit the Exchange and influence government policy to raise and stabilize milk prices and ensure competition to protect the dairy industry long-term?

- Exiting the Exchange won't stabilize prices, nor will it improve the competitive environment for the dairy farmer.
- We do not have the market power to set, dictate, direct or affect commodity prices.
- Supply-demand balance of the total industry, and not any single company, determines prices.

2048300624

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

SHAREHOLDER PROPOSAL: MILK/CHEESE PRICING *(CONT'D)*

Why do shareholder groups keep challenging your behavior in the cheese market?

- Two shareholder groups would like to see higher milk prices
  - due to government regulations, or
  - by Kraft manipulating milk prices higher.
- Kraft believes that milk prices should be a function of marketplace forces of supply and demand.
- Kraft's acts must be in compliance with the law.

2048300625

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

TOBACCO 1994

MEDIA/CONGRESS/CLINTON ADMINISTRATION

JANUARY

6 Washington Post reports on Congress' fire-safe cigarette initiatives

7 Surgeon General Elders warns on dangers of ETS and children

11 United Airlines announces a trial smoking ban on international flights

12 Former President Carter calls for advertising limits

16 OSHA reported to be moving toward smoking ban

20 Researchers announced they had linked smoking to some forms of leukemia

26 Arby's bans smoking

28 GATT announces a panel to probe US tobacco import restrictions

FEBRUARY

1 San Francisco's stringent smoking law takes effect

4 The Mayor of New York City announces opposition to a tobacco ad at Shea stadium

5 The American Bar Association urges increased taxes for tobacco and alcohol

7 The White House backs a tough public smoking ban

8 Surgeon General Elders backs the ban on smoking in US public buildings

The EPA announces support for near-total smoking ban

11 A study reported that smoking while pregnant lowers the IQ of children

20 Washington Post reports increased teen smoking

22 ETS in fetal hair report from AMA

23 McDonald's announces new smoke-free policy

National Council of Chain Restaurants supports smoking ban

Congressman Moakley introduces fire-safe cigarette bill

24 30th anniversary report of the Surgeon General

25 ABC News breaks story on nicotine "spiking"

27 United Airlines institutes trial bans on international flights

28 ABC Day One nicotine story

Action on Smoking & Health files another petition with FDA to regulate cigarettes

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MARCH

3	Maryland proposes statewide workplace ban
	Congressmen Synar and Durbin solicit sponsors for their FDA bill
4	DOD leaks new smoking ban policy
	Senator Kennedy requests GAO study of nicotine issue
7	ABC Day One on FDA jurisdiction and "ingredients"
7-11	NBC News runs tobacco feature every night
8	Wall Street Journal reports Justice Department anti-trust division investigation of alleged suppression of fire-safe cigarette research
9	House Floor Amendment to Education Bill adding tobacco to definition of "drugs" passes
	Department of Defense announces smoking ban
	Industry tobacco rally in Washington
10	Fire-safe cigarette article in Washington Post
	Former HEW Secretary Califano calls for $2 tax before Senate Finance
	Congressman Waxman asks Justice Department to investigate companies' ingredient reports
14	Taco Bell bans smoking
16	Stark Subcommittee narrowly defeats $2 FET proposal
17	Waxman Hearing on smoking ban
22	Waxman cancels mark up of smoking ban bill
25	Waxman holds hearing on FDA jurisdiction over cigarettes
27	60 Minutes airs feature on "fire-safe" cigarettes

APRIL

19	Hearing on fire-safe cigarettes legislation before House Energy & Commerce Subcommittee
TBA	Kennedy hearings on FDA jurisdiction with GAO report
TBA	Waxman mark up of smoking ban bill

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

FIRE SAFE CIGARETTES

JANUARY

6	Washington Post article on legislation
11	Justice Department issues civil subpoenas

FEBRUARY

23	Congressman Moakley introduces legislation

MARCH

8	Wall Street Journal runs story on CID's
10	Industry interviewd by 60 Minutes
27	60 Minutes runs feature on issue
10	Waxman asks Department of Justice to investigate industry's ingredient reporting

APRIL

19	Hearing on fire-safe cigarette legislation before House Energy & Commerce Subcommittee

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

FDA JURISDICTION

FEBRUARY

25	FDA Commissioner releases letter to COSH on possible FDA jurisdiction over tobacco
28	ABC News "Day One" feature "on spiking"
	COSH/ASH files new FDA petitions

MARCH

3	Congressmen Synar/Durbin solicit co-sponsors
4	Senator Kennedy requests GAO study
7	ABC News "Day One" feature on ingredients
9	House floor amendment passes defining tobacco as a drug
10	Waxman asks Department of Justice to investigate industry's ingredient reporting
15	Durbin and Kessler have lengthy discussion on FDA jurisdiction in Durbin's Appropriation Subcommittee
25	Waxman hearing on FDA jurisdiction

APRIL

TBA	Kennedy hearings on Nicotine and GAO study

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ENVIRONMENTAL TOBACCO SMOKE

FEBRUARY

7	Waxman hearing on smoking ban legislation—Administration, EPA, Surgeon General and five former Surgeon Generals endorse
20	ETS found in fetal hair per AMA
22	McDonald's and National Chain Restaurants endorse ban legislation
24	Surgeon General press conference
27	United Airlines trial ban on international flights

MARCH

3	State of Maryland announces smoking ban proposal
8	Department of Defense announces ban
14	Taco Bell announces ban
16	Washington State signed de facto ban effective September
17	Waxman holds hearing on his smoking ban bill
22	Waxman cancels scheduled markup but threatens each subsequent day looking for votes
24	Waxman schedules but postpones markup until after recess
25	Department of Labor announces proposed rule banning smoking

APRIL

TBA	Waxman markup of smoking ban bill

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

HIGHLIGHTS: 1994 FIRST QUARTER RESULTS

- Reported net earnings of $1.34 per share were up 59.5% from last year's first quarter, when the company adopted an accounting change that lowered reported net earnings by $.54 a share.

- Excluding the effect of the 1993 accounting change, net earnings per share were down 2.9% for the quarter, but above the consensus estimate of Wall Street analysts.

- Operating revenues of $15.5 billion were up 2.0% versus $15.2 billion in the 1993 first quarter.

- Operating companies income was $2.6 billion, down 3.6% as a result of lower domestic tobacco pricing. Excluding domestic tobacco, operating income in the first quarter from all other businesses grew 9.1%.

- Income from international operations was $1.0 billion, up 13.0% over last year, led by a strong performance from the company's international tobacco business.

- Operating income in domestic tobacco was down 24.5%, but at its highest level since the company adopted its pricing strategy in the 1993 second quarter.

- That strategy continued to prove successful; according to the latest Nielsen data, Philip Morris' total share of the U.S. retail cigarette market is 45.6%, up 4.0 points from March 1993; **Marlboro** retail share is 27.3%, up 5.2 points in the same period.

- During the quarter, the company raised its quarterly dividend 6.2% and resumed share repurchases under an existing authority.

2048300631

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

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FOR IMMEDIATE RELEASE

PHILIP MORRIS REPORTS FIRST QUARTER RESULTS

OPERATING REVENUES UP 2.0%

OPERATING COMPANIES INCOME DOWN 3.6%

INCLUDING CUMULATIVE EFFECT OF 1993 ACCOUNTING CHANGE:

- **REPORTED NET EARNINGS UP 58.9%**
- **REPORTED NET EARNINGS PER SHARE UP 59.5% TO $1.34**

EXCLUDING CUMULATIVE EFFECT OF 1993 ACCOUNTING CHANGE:

- **NET EARNINGS DOWN 3.5%**
- **EARNINGS PER SHARE DOWN 2.9%**

NEW YORK, April 19, 1994 -- Philip Morris Companies Inc. (NYSE: MO) today reported net earnings of $1.2 billion, up 58.9%, and net earnings per share of $1.34, up 59.5%. The gains include the cumulative effect of an accounting change adopted in last year's first quarter.

Excluding the accounting change, net earnings were down 3.5%, and net earnings per share were down 2.9% from the prior year. Earnings were lower primarily because pricing for the company's premium cigarettes was higher in the first quarter of 1993.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

The accounting change, reflecting the cumulative effect of adopting Statement of Financial Accounting Standards No. 112, primarily to cover severance payments, reduced reported net earnings in the 1993 first quarter by $477 million, or $.54 per share.

"All of our businesses are off to a good start in 1994," said Michael A. Miles, chairman of the board and chief executive officer. "Our domestic tobacco business continues to improve, and our other businesses, led by a strong showing from international tobacco, are soundly profitable."

The company posted operating revenues in the first quarter of $15.5 billion, up 2.0%. Operating companies income declined 3.6% to $2.6 billion as a result of lower domestic cigarette pricing. Excluding domestic tobacco, operating income in the first quarter from all of the company's other businesses, in total, was up 9.1%, despite adverse currency movements.

Philip Morris continued to see profitable growth from its international operations, as overseas operating income climbed 13.0% to $1.0 billion, led by a strong performance from the company's international tobacco business.

The decline in net earnings was largely the result of a domestic cigarette pricing strategy Philip Morris adopted in the second quarter of 1993. The strategy, aimed at regaining market share and improving long-term profitability in the company's domestic tobacco business, narrowed the price gap between Philip Morris' premium cigarette brands and competitors' discount products.

The strategy has thus far proven successful, with the company recording impressive share and volume gains for **Marlboro** and its other premium brands since lowering prices.

Philip Morris during the first quarter raised its quarterly dividend by 6.2%, to $.69 per common share from $.65 per share, and resumed share repurchases under an existing board authority that was extended through the end of 1994. During the first quarter, the company repurchased 4.7 million common shares at a cost of $253.2 million.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

TOBACCO

Operating revenues from the company's worldwide tobacco operations were up 3.9% to $7.0 billion for the first quarter. Operating income, at $1.6 billion, was 7.8% lower than a year ago because of lower domestic cigarette pricing. Worldwide cigarette volume increased 12.2%, to 185.8 billion units, from the prior year.

Domestic Tobacco

Operating revenues for domestic tobacco were down 1.8%, to $2.5 billion, while operating income, at $769 million, was down 24.5% compared with last year's first quarter, due to lower pricing. Quarterly operating income, however, was at its highest level since the company's new pricing strategy was adopted in last year's second quarter.

Domestic cigarette volume, based on shipments, was 49.7 billion units, up 12.5% over 1993, primarily due to a change in distributor buying patterns. This compared with the industry's 8.4% increase for the quarter. **Marlboro**'s shipment volume in the U.S. was up 32.0%, to 29.9 billion units. For the quarter, the company's total shipment share was 43.1%, an increase of 1.5 share points from the year-earlier period, while **Marlboro**'s shipment share was up 4.6 points, to 25.9%.

More profitable premium cigarettes also claimed a greater share of the company's total product mix in domestic tobacco. Compared with shipments in the first quarter of 1993, the premium portion of the company's business was up 7.7 points to 79.2%.

At the retail level, according to the latest available A.C. Nielsen data*, the company's overall share of market was 45.6%, up 4.0 points from March 1993, before the company lowered its premium cigarette prices. The February 1994 Nielsen figures also indicate that retail share for **Marlboro** was 27.3%, an increase of 5.2 share points compared with March 1993.

**Nielsen retail data is for February 1994, the latest month for which figures are available. Retail shares have been restated to reflect the company's change to a more representative Nielsen survey of retail outlets .*

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Retail share of Philip Morris' other premium brands, as a group, climbed to 9.1% in February 1994, up from a low of 8.3% in August 1993, when the company lowered their wholesale list prices. The industry's premium segment share, as a whole, has grown more than 5 share points, to 67.3%, since March 1993, with the discount category shrinking by the same amount.

International Tobacco

International tobacco continued its pattern of strong growth in the first quarter. Operating revenues rose 7.3%, to $4.5 billion, and operating income advanced 17.4%, to $791 million, despite unfavorable currency movements.

International cigarette unit volume, including U.S. exports, was 135.8 billion units, up 12.3% from a year ago. Gains were recorded in most markets, including Germany, Japan, Central and Eastern Europe, the Middle East, Argentina and Brazil.

In Italy, volume continued to grow, excluding the effect of an inventory replenishment in early 1993 following a union strike. Volume declined in Turkey due to the economic situation in that country.

Marlboro's international volume also grew, increasing 6.1% to 67.8 billion units. International volume also continued to grow for the company's other U.S.-heritage brands, such as **Virginia Slims, Parliament, L&M**, and **Chesterfield**.

Philip Morris' market share trends continued to be positive in its major international markets, with record shares achieved in Germany, Italy, France, Finland, the Czech Republic, Japan, Singapore, Argentina and the Dominican Republic.

During the first quarter, the company continued to expand its international tobacco operations by investing in a tobacco processing plant in Malaysia.

FOOD

Operating revenues for the company's worldwide food businesses were down 0.1%, to $7.4 billion, in the first quarter due primarily to the sale of underperforming businesses in North America, and adverse currency movements. Operating income

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

increased 2.2% to $880 million, benefiting from volume growth, acquisitions and the sale of the unprofitable businesses, partially offset by unfavorable currency movements.

North American Food

At $5.2 billion, operating revenues from North American food operations were 1.3% lower than a year ago, primarily reflecting the company's sale last year of its frozen desserts business, including the **Breyers** and **Sealtest** brands, and its Birds Eye frozen vegetables business. First-quarter operating income advanced 2.7%, to $638 million, helped by solid performances in core businesses such as cheese, grocery, cereals and processed meats, as well as by the sale of the underperforming businesses.

In cheese, volume rose 3.5% for the quarter. Contributing to the increase were share gains for **Kraft** Singles and **Kraft Deluxe** Slices. In addition, volume for **Kraft** Natural Cheese was up, benefiting from a list price reduction last year.

In grocery, volume grew for **Kraft** pourable dressings, and volume and share advanced for **Kraft** barbecue sauce. Frozen pizza also had a strong quarter, recording double-digit volume gains on the geographic expansion of **Tombstone** and **Jack's** and overall category growth. Volume for **The Budget Gourmet** frozen entrees benefited from the continued success of its **Special Selections** pasta line introduced last year.

In processed meats, Oscar Mayer volume continued to perform strongly, particularly in the hot dog and lunch combinations categories. Two recent product introductions, **Big & Juicy** hot dogs and **Lunchables** Fun Pack lunch combinations, continued to show promising results.

In the beverage business, price reductions on **Kool-Aid** taken in the fourth quarter of 1993 lowered first-quarter income but resulted in market share gains. In addition, **Capri Sun** registered good volume and share gains, which were driven by expanded distribution.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Volume growth in the cereals business resulted from strengthened marketing behind the **Nabisco** brands acquired last year. In the bakery business, volume was up due to continued growth in frozen and fresh bagels.

Coffee volume declined due to the escalation of competitive promotional activity in the roast and ground category, but income was up strongly for **Maxwell House**, primarily on productivity gains, and for specialty coffees, due to higher sales.

International Food

International food operating revenues increased 2.7% to $2.2 billion, and operating income, at $242 million, climbed 0.8% from the year-earlier period, despite unfavorable currency movements. Excluding currency, operating income was up 12.5% for the quarter.

Volume was ahead of last year, driven by the strong performance of the company's confectionery business. In Germany, the largest confectionery market in Europe, chocolate tablet volume was up on the continued success of **Milka Big Size**. Volume performance in countlines (filled chocolate bars) was also strong, largely due to the introduction of new products, **Milka Tender** and **Milka Fresh**.

The company continued to build its business in Central and Eastern Europe, achieving significant volume growth in both coffee and confectionery in the first quarter. Expanding its geographic presence in the region, the company acquired a majority stake in S.C. Poiana-Produse Zaharoase S.A. Brasov, Romania's leading chocolate manufacturer.

BEER

At Miller Brewing Company, operating revenues advanced 5.7%, to $1.0 billion, and operating income of $103 million was 10.8% higher than last year's first quarter. Results reflect the company's acquisition of Molson Breweries U.S.A. Inc. in the second quarter of 1993. With the acquisition, Miller gained U.S. import operations and marketing and distribution rights for **Molson**, **Foster's** and other imported brands.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Including the Molson brands, Miller's shipment volume for the quarter grew 5.1%, to 10.8 million barrels, compared with an estimated 1.1% volume gain for the U.S. malt beverage industry.

The company's new ice-brewed products -- **Lite Ice**, **Icehouse** and **Molson Ice** -- showed strong results in the quarter. **Miller Genuine Draft** volume was up, as were shipments of **Miller High Life** in markets where it was successfully repositioned with near-premium pricing. **Miller Lite** volume was down.

FINANCIAL SERVICES AND REAL ESTATE

Financial services and real estate operating income increased 12.5% for the first quarter. Philip Morris Capital Corporation's financial services operating income increased 12.1%, primarily due to gains on sales of marketable securities.

Operating income from real estate operations was up for the quarter, reflecting increased sales in Colorado.

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Philip Morris Companies Inc. has five principal operating companies: Philip Morris U.S.A., Philip Morris International Inc., Kraft General Foods, Inc., Miller Brewing Company, and Philip Morris Capital Corporation.

Kraft General Foods, Inc. has three operating groups, Kraft General Foods International (including Kraft Jacobs Suchard), Kraft Foodservice Inc., and Kraft General Foods North America, which has four operating units: General Foods USA, Kraft USA, Kraft General Foods Canada and Kraft Food Ingredients Corp.

Philip Morris Capital Corporation is engaged in financial services activities. Its subsidiary, Mission Viejo Company, is engaged principally in land planning, development, and sales in Southern California and Colorado.

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PHILIP MORRIS COMPANIES INC.
and Subsidiaries

Condensed Statements of Earnings
(in millions, except per share data)

	For the Quarters Ended March 31,		
	1994	1993	% Change
Operating revenues	$15,500	$15,189	2.0 %
Cost of sales	6,798	6,630	2.5 %
Excise taxes on products	2,773	2,624	5.7 %
Gross profit	5,929	5,935	(0.1)%
Marketing, administration and research costs	3,332	3,241	2.8 %
Operating companies income	2,597	2,694	(3.6)%
Amortization of goodwill	141	135	
Unallocated corporate expenses	94	101	
Interest and other debt expense, net	319	382	
Earnings before income taxes and cumulative effect of accounting change	2,043	2,076	(1.6)%
Provision for income taxes	872	862	1.2 %
Earnings before cumulative effect of accounting change	1,171	1,214	(3.5)%
Cumulative effect of change in method of accounting for postemployment benefits (net of income tax benefit of $297 million) (*)		(477)	
Net earnings	$1,171	$737	58.9 %
Per share data:			
Earnings before cumulative effect of accounting change	$1.34	$1.38	(2.9)%
Cumulative effect of accounting change		(.54)	
Net earnings per share	$1.34	$.84	59.5 %
Weighted average number of shares outstanding	877	883	(0.7)%

* See note on Page 11

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PHILIP MORRIS COMPANIES INC.
and Subsidiaries

Selected Financial Data by Business Segment
(in millions)

	For the Quarters Ended March 31,		
Operating Revenues	1994	1993	% Change
Domestic tobacco	$2,497	$2,543	(1.8)%
International tobacco	4,457	4,153	7.3 %
International food	2,228	2,169	2.7 %
Total international	6,685	6,322	5.7 %
North American food*	5,191	5,257	(1.3)%
Beer	1,030	974	5.7 %
Financial services & real estate	97	93	4.3 %
Total operating revenues	$15,500	$15,189	2.0 %
By Segment: Tobacco	$6,954	$6,696	3.9 %
Food	7,419	7,426	(0.1)%
Beer	1,030	974	5.7 %
Financial services & real estate	97	93	4.3 %
	$15,500	$15,189	2.0 %
Operating Companies Income			
Domestic tobacco	$769	$1,018	(24.5)%
International tobacco	791	674	17.4 %
International food	242	240	0.8 %
Total international	1,033	914	13.0 %
North American food*	638	621	2.7 %
Beer	103	93	10.8 %
Financial services & real estate	54	48	12.5 %
Total operating companies income	$2,597	$2,694	(3.6)%
By Segment: Tobacco	$1,560	$1,692	(7.8)%
Food	880	861	2.2 %
Beer	103	93	10.8 %
Financial services & real estate	54	48	12.5 %
	$2,597	$2,694	(3.6)%

* Includes KGF North America and Kraft Foodservice Inc.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PHILIP MORRIS COMPANIES INC.
and Subsidiaries

Condensed Balance Sheets
(in millions, except ratios)

	March 31, 1994	December 31, 1993
Assets		
Cash and cash equivalents	$209	$182
All other current assets	13,594	12,626
Property, plant and equipment, net	10,491	10,463
Goodwill and other intangible assets, net	19,838	19,746
Other assets	2,454	2,529
Total consumer products assets	46,586	45,546
Total financial services and real estate assets	4,939	5,659
Total assets	$51,525	$51,205
Liabilities and Stockholders' Equity		
Current liabilities	$13,206	$13,539
Long-term debt	14,730	14,358
Other long-term liabilities	7,153	7,014
Total consumer products liabilities	35,089	34,911
Total financial services and real estate liabilities	4,421	4,667
Total liabilities	39,510	39,578
Total stockholders' equity	12,015	11,627
Total liabilities and stockholders' equity	$51,525	$51,205
Total consumer products debt	$16,110	$16,364
Debt/equity ratio-consumer products	1.34	1.41
Total debt	$17,646	$18,156
Total debt/equity ratio	1.47	1.56

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

PHILIP MORRIS COMPANIES INC.
and Subsidiaries

Note to Selected Financial Data

The Company adopted as of January 1, 1993, SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The cumulative effect of this change in method of accounting as of January 1, 1993, was a decrease in 1993 first quarter net earnings and earnings per share of $477 million and $.54 respectively.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ACQUISITIONS AND DIVESTITURES

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ACQUISITIONS & DIVESTITURES

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ACQUISITIONS & DIVESTITURES

LIST OF ACQUISITIONS
(1/93 - 4/94)

COUNTRY	ACQUISITION	KEY INDUSTRY
BEER		
Canada	Molson	
USA	East Bay (Oakland)	
FOOD		
Argentina	La Monthelado	ice cream
Brazil	Q-Refres-KO S.A.	PSD's/confectionery
Bulgaria	Rupublika	confectionery
Canada	NABOB Foods Ltd.	coffee
Costa Rica	Gallito	confectionery
Czech Republic	Dadak	coffee
France	MaxPax	coffee
Lithuania	Kaunas	confectionery
Poland	Chorzele (75%) DANDY (50%) OLZA	dairy confectionery confectionery
Romania	Poiana	confectionery
Russia	Konfi	confectionery
Sweden	AB Estrella Kooperative-Forbundet's	snack foods coffee
Turkey	Marsa (50%)	margarine, edible oils
United Kingdom	Allied Lyons Terry's	coffee confectionery
USA	RJR Cereal	cereal
TOBACCO		
Kazakhstan	Almaty Tobacco Factory	
Lithuania	Klaipeda Tobacco Co. (55%)	
Russia	Krasnodar	

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

BEER

1. Does your recent acquisition of and involvement in Molson and FEMSA signal an increased interest in the international beer market?

   - Yes, our 20% share of Molson Breweries, allows us to increase global presence.
   - Our 7.9% share of FEMSA helps us share in the success of one of Mexico's largest consumer goods companies with holdings in brewing (Dos Equis, Carta Blanca, Tecate, and Superior), Coca-Cola bottling, and convenience stores.
   - Miller Genuine Draft introduced in Puerto Rico in September 1992, and has captured more than 30% of the Puerto Rico beer market and is now the #1 brand.
   - MGD was also successfully introduced in the United Kingdom and Ireland.
   - Miller is the first foreign brewer to have its beer brewed in Beijing, through a licensing agreement with Shuang He Sheng Five Star brewery.
   - Our products are available in more than 75 countries, through exporting, exclusive partnerships, and joint ventures.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

FOOD

2. What KGFNA acquisitions and divestitures took place during 1993?

   - We acquired:
     - Nabisco's North American ready to eat cereal business
     - Nabob coffee business in Canada
   - We divested in the US:
     - Ice cream and frozen vegetables

3. In 1993 you sold Birds Eye and ice cream. How large were the gains and how were they recorded?

   - Sold Birds Eye to Dean Food for $135 million and realized a gain of $8 million on the sale.
   - Sold the ice cream business to Unilever for $262 million and realized a gain of $27 million on the sale, net of $100 million transaction costs.

4. Do you think the climate is becoming more hostile to mergers and acquisitions overseas?

   - No, but as we focus our acquisition activity on our core businesses, we will encounter more legal and public interest scrutiny due to our size and market share.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

TOBACCO

5. How is our tobacco business doing in Central/Eastern Europe. Will all these investments pay off?

- PM is profitable in Central and Eastern Europe. Our 20 year presence in this region has given us an exceptional understanding of the consumers, politics, and economics of the region.
- The Czech & Slovak Republics: Almost $400 million was invested in Tabak. On an operating basis, Tabak is already profitable. Marlboro is the largest international brand at the premium end of the market. Tabak also has 3 of the top 4 brands on the market (Petra, Start, and Sparta). These have been extended to filter, lights, and other variants. Tabak's market share in the Czech Republics is almost 70%.
- Hungary: The performance of our affiliate EGRI is ahead of the original acquisition plan and performing profitability.
- Lithuania: Our acquisition of the Klaipeda State Tobacco Company was completed in June of 1993.
- St. Petersburg: Two phases; First, a 1 billion unit make-pack facility will be operational by summer 1994. Second, a 10 billion unit greenfield site, still to be determined.
- Krasnodar: In October 1993, PM acquired a 49% shareholding in the Krasnodar Tobacco Factory. We currently own a majority stake (51%) and our total investment is expected to reach approximately $60 million over the next several years.

(Continued)

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

- Kazakhstan: Agreement closed at the end of 1993 with the Kazakh authorities of the Almaty Tobacco Factory. We own 98% of shares.
- Exports: We are growing export volume in Bulgaria, Romania, and those parts of the former Yugoslavia where the market is not closed due to UN sanctions.
- Poland: We have good ongoing relations with our licensee ZPT Krakow. We have publicly expressed our interest to invest in Poland, but are waiting for the government to begin its privatization of the tobacco industry.

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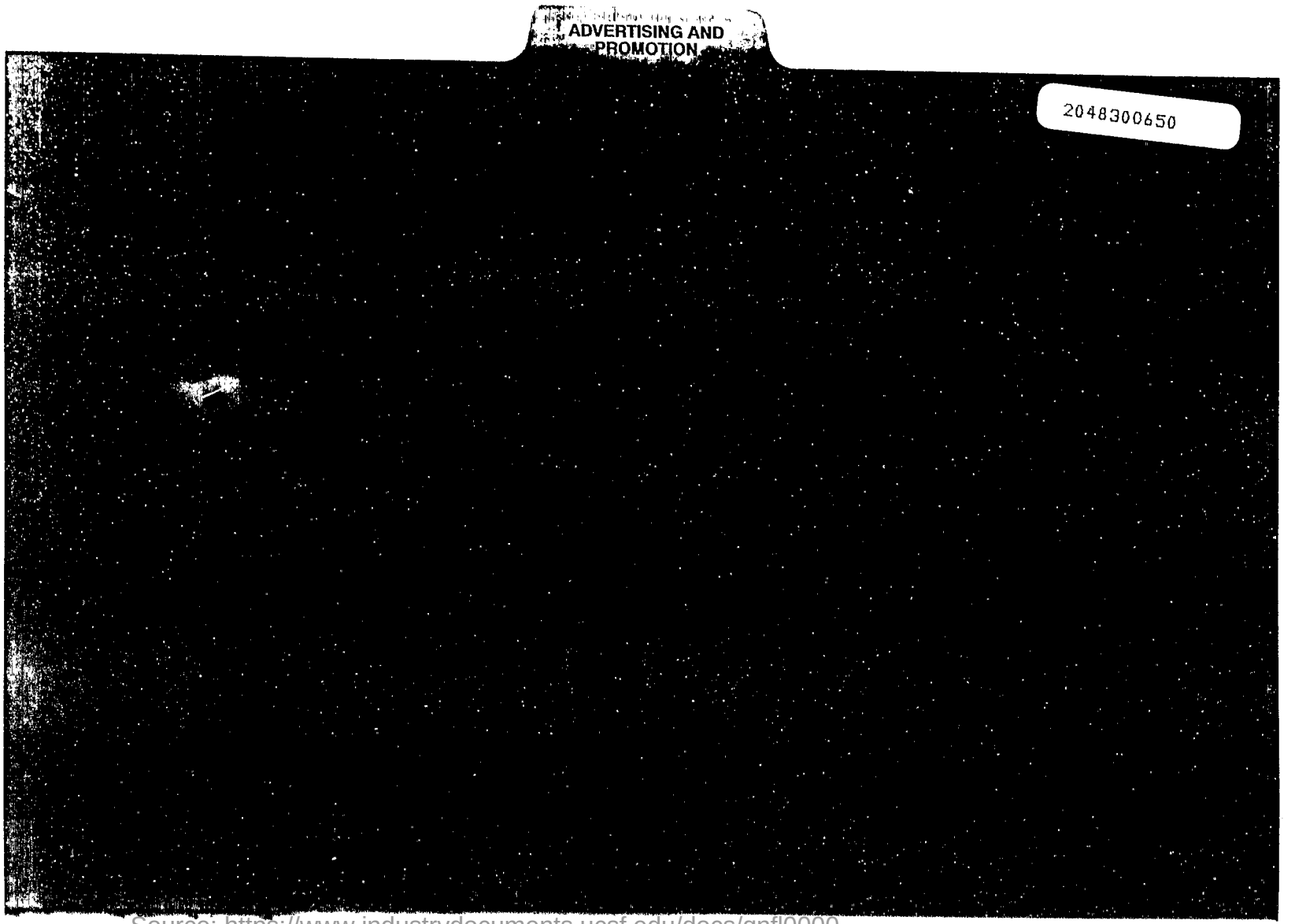
Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000



Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ADVERTISING & PROMOTION

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ADVERTISING & PROMOTION

MARKETING PRACTICES

1. How does the company respond to efforts to reduce product placement in movies and place warnings at the beginning of films?

   - The FTC rejected the petition by anti-alcohol groups to propose rulemaking in this area.
   - Our company responds to requests from movie companies which desire to have authentic products depicted in their movies as a natural part of a scene.
   - What we pay for is to have our brand identified instead of someone else's.
   - We do not authorize product placements for tobacco.

MARKETING TO GAY COMMUNITY

2. What is PM's policy with regard to advertising to the gay community?

(N)
   - Advertising and marketing programs reflect entire spectrum of consumers.
   - Advertising is developed by professionals from different disciplines who are sensitive to the uniqueness and diversity of our consumers.

2048300652

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

3. Why didn't KGF advertise on the *Roseanne* episode dealing with homosexuality?

(N)
- Decision not to purchase advertising time in the March 1 episode was result of the tabloid publicity that had surrounded the episode.
- KGF is an infrequent advertiser on *Roseanne.*
- At no time did we purchase national advertising time for this episode. We simply decided to pass it up as a possible buy.

ETHNIC MARKETING

4. Will PM contribute to the "rebuilding" of South Central L.A. and the relocation of African-American alcohol beverage businesses throughout the country?

- **Confidential**: CEOs of A-B, Coors, and Miller received requests from Mayor Bradley and the South Central L.A. task force of African- and Asian-Americans to participate in the rebuilding of this area of the city, and the reallotting of licensed beverage stores throughout the country. To our understanding, no brewer responded in the affirmative on this.

TELEVISION VIOLENCE

5. Is there a need for Congress to pass legislation that regulates the responsibilities of advertisers in the area of TV violence?

- PM does not believe this type of legislation is warranted.
- Congress should encourage the broadcast networks and the program producers to address problems in this area.

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ADVERTISING DEDUCTIBILITY

6. PM spends millions of dollars on advertising annually. What is our position on legislative proposals that seek to eliminate or reduce the tax deductibility of advertising costs?

(N)
- We oppose such proposals.
- All consumer product companies advertise to generate sales and revenue, which is subject to taxation as ordinary income.
- Advertising expenses should be fully deductible as part of the cost of sales and all advertisers should be treated equally and fairly under the law.

BEER

MAGNUM MALT LIQUOR

7. Is Miller promoting violence with its marketing of Magnum Malt Liquor?
   - No. Miller markets appropriately and responsibly to adult beer drinkers.
   - Category represents only 2.8% of our brand portfolio and is supported by point-of-purchase materials only.
   - Availability of malt liquor products is not a contributing factor in crime and violence. Issues facing inner cities are much deeper than advertising, a visible and convenient scapegoat. Critical issues will not be resolved by band-aid solutions like availability and advertising control.

(Cont'd)

2048300654

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

- Study suggests a reversal of the usual perceived linkage showing that youthful aggressive behavior predicts heavy drinking far more forcefully than drinking predicts aggression. Aggressive people act that way with or without alcohol and do so throughout their lives. This could, in part, account for the high rate of so-called "alcohol-related" crimes. They may have been committed by people who are aggressive for other reasons. (Study by Dr. Dwight Heath, Brown University - reported February 1994)

40-OUNCE CONTAINERS

8. Is Miller promoting alcohol abuse with its 40-ounce containers that are treated as a single serving in African American and Latino communities?

   - No. Miller markets appropriately and responsibly to adult beer drinkers.
   - 40-ounce bottle is a re-sealable and convenient package. It is driven by consumer preference.
   - Studies found that control of the availability of alcohol beverage does not solve the problem of alcoholism. Rather, it is individual behavior, not the product, that causes the problem.
   - The US seems to have entered a new wave of prohibition, manifested by the belief that alcohol problems can be alleviated by controlling alcohol supply.

   (Cont'd)

2048300655

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

- States that have the strongest cultural biases against alcohol beverages tend to be the same states that experience the most problems. Conversely, states with the most liberal attitudes and laws towards alcohol beverages have the lowest rates of alcohol problems, suggesting that factors, other than availability, determine high alcohol abuse. (R. Thomas Dull, Ph.D., Dept. of Criminology, CA State Univ.; David J. Giacopassi, Ph.D., Dept. of Criminal Justice, Memphis State Univ., April 1986.)
- To understand drinking behavior and alcohol problems as the dynamic processes they are, we must take into account a multitude of social, cultural, and attitudinal variables, not just availability which has not been scientifically proven to cause abuse. (Study challenges the distribution of consumption prevention model. A.S. Linsky, J.P. Colby, and M.A. Straus, Dept. of Sociology, Univ. of New Hampshire.)

9. Is it a company's responsibility to be sensitive to community issues when designing an advertising strategy?
   - We adhere to voluntary industry advertising guidelines.
   - We have established our own high standards for marketing program content.

10. What is your response to critics who want to dictate how a company advertises/markets its products such as those who want to prevent alcohol companies from saturating minority communities with their advertisements?
   - We will continue to develop meaningful information campaigns and educational programs, to encourage responsible consumption by adult beer drinkers.

2048300656

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

BIG LAWYER ROUNDUP

11. What is PM's comment regarding the American Bar Association's reaction to Miller Lite's "Big Lawyer Roundup" commercial?

(U)
- Not intended to misrepresent or offend any particular group or individual. The commercial is no longer being aired.
- Humorously reinforces that if you can combine great taste and less filling, you can combine anything.
- We've combined golf and football in *Full Contact Golf*, hockey and a beauty pageant in *Miss Perfect Face-off*, sumo wresting and high diving in *Sumo High Dive*, luge racing and bowling in *Luge Bowling*, and a dog show and drag racing in *Wiener Dog Winternationals*.
- Recently added *Cowabunga* featuring cow surfing and *Bassball* combining baseball with fishing.

TARGET MARKETING

12. How do you define target marketing? Why do consumer products companies use this marketing technique?
- Market segmentation directs relevant messages to key audiences.
- A marketing tool that has been used by consumer products companies for many years.

2048300657

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

ADVERTISING RESTRICTIONS

13. What about proposals to restrict beer advertising?

- Beer has been part of civilization for 6,000 years, and it's common knowledge that there are risks and consequences from abusive consumption. We have a multi-faceted alcohol awareness and education program to remind consumers of the risks and to promote responsible drinking.
- Miller markets appropriately and responsibly to adult beer drinkers.
- Advertising affects brand performance, not consumption or abuse. (Government studies and independent researchers.)
- Warnings are the least effective way to fight abuse; and education (through schools, family, and law enforcement) is the most effective. (1990 Roper Poll)

14. Are you sensitive to the criticism by urban community leaders that there is too much alcohol advertising in inner cities? Will the company scale back billboard advertising in these communities?

- Billboard advertising represents less than 1% of the total industry's advertising efforts.

2048300658

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

FOOD — KGFI

15. How much does KGFI spend in marketing each year, as a percentage of revenues?

- $750 million, (Advertising $566, Consumer $182)
- 8% of revenues.

TOBACCO

PM USA

16. Why should PM or any other tobacco company be permitted to continue to advertise?

- Tobacco is a legal product, and truthful speech about tobacco is protected by the US Constitution.
- PM advertises its products to adult consumers to persuade them to try and switch to our brands.
- Free speech.

MINORITY MARKETING

17. Does PM "target" women and minorities with advertising and promotion activities?

- We communicate with all adult smokers, which include all segments of the US adult population.

18. Why does PM USA place billboards advertising its cigarettes in minority neighborhoods?

- A variety of media, including billboard advertising.
- Local zoning laws determine where billboards may be placed, and PM complies with all such laws.

2048300659

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MARKETING TO MINORS

19. Isn't it true that you target your advertising and promotion to minors?

- No.
- We have a stringent company code requiring that all models in our advertising be over 25 and look it.
- We never pay celebrities or sports figures to endorse cigarettes in our advertising.
- More than 25 years ago, we ceased advertising in college publications or in any media whose primary audiences is under 18.
- We encourage state governments to establish 18 as the minimum age for the legal purchase of tobacco products.
- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- We aggressively pursue all cases of logo, trademark and copyright infringement brought to our attention.
- We manufacture branded promotional clothing items in adult sizes only, and we require anyone receiving branded promotional items through the mail to sign a certificate affirming the recipient is a current smoker at least 21 years of age.

2048300660

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

20. Recent studies show teenage girls are smoking more. How do you justify targeting teenage girls with your cigarette advertising?

- We do not "target" teenagers of either sex. None of our marketing efforts are directed at people under 21.
- PM doesn't want kids to smoke.
- We fully support state laws which make sale of tobacco illegal to those under the age of 18.
- We work with retailers to make sure that both they and their customers understand and obey the law.

21. Should Congress ban the use of cartoon characters in tobacco ads?

- PM USA does not use cartoon characters in our ads.
- Such a ban raises serious First Amendment issues.

TAX DEDUCTIBILITY

22. Many anti-smoking groups argue that tobacco advertising influences children to smoke. In considering this statement, why shouldn't the federal government restrict the tax deductibility of tobacco advertising and thus end the "subsidy" of marketing products to our youth?

- We advertise to maintain customer loyalty.
- To encourage smokers of other companies' products to switch to our products.
- By eliminating the tax deductibility, the government would be influencing consumer choice by restricting the flow of truthful information about a lawful product.
- Such use of the tax code raises serious First Amendment issues.

2048300661

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

23. Why shouldn't health warnings be required whenever a tobacco brand or logo appears on non-cigarette products such as hats or T-shirts?

- Existing warning label requirement has been successful.
- Extension to non-tobacco products is unnecessary.
- Virtually everyone is aware of the information contained in the warnings on packages and in advertisements.

24. Where is the heaviest pressure for advertising bans or restrictions?

- Local laws restricting cigarette advertising.
- Outdoor and transportation advertising.

VOLUNTARY CODE ON ADVERTISING

25. The tobacco industry has a Voluntary Code on Advertising and Promotion. Does PM USA adhere to the Code?

- Yes.
- A comprehensive internal review and pre-approval process for all tobacco advertising and promotions.

26. If PM USA complies with the Code, why not support federal legislation mandating compliance with the Code?

- PM USA complies with the Code and therefore believes that no legislative action is necessary.

2048300662

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

27. PM USA launched the Marlboro Adventure Team promotional campaign, which appears to involve "rigorous physical activity." Do you feel that this campaign complies with the Voluntary Code's prohibition against the use of sports figures or persons smoking while engaging in physical activity?

- In conformance with the Code, the campaign did not use well-known athletes.
- It did not show anyone smoking as they participate in these activities.
- The program specifically stated that participants must be 21 years of age or older and be smokers.

28. If tobacco advertising does not seek to attract new customers, why does PM USA spend any money on advertising and promotion?

- To maintain customer loyalty.
- To encourage smokers of other companies' products to switch to our products.

PM INTERNATIONAL

29. We hear a lot about the marketing of tobacco products overseas. What "rules" govern our marketing of products in foreign countries?

- PM abides by the laws of the countries in which we are importing our products.
- Often negotiated trade agreements prescribe the "rules" governing our entry into a market.

30. I understand that there is a threat to Marlboro sponsorship Formula 1 racing. What will happen if we lose this?

- As far as we are concerned, there is no threat to our sponsorship.
- It is continuing as planned.

2048300663

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

MARKETING TO MINORS - INTERNATIONAL

31. Isn't it true that PM is marketing to youth and children in other countries, like China? Why does PM use double standards when marketing to different countries?

- No. We adhere strictly to our own marketing code which prevents such marketing and establishes the means for responsible marketing.
- With the Chinese monopoly controlling an approximate 99% share, our goal is to have a greater share of this market.
- There is no "special customization" of our basic marketing strategies to target China.

MARKETING RESTRICTIONS

32. What is the status of marketing restrictions in Europe?

- European-wide tobacco marketing restriction proposal is under review by the EU Commission's legal department who believes such a proposal may exceed the scope of the Commission.
- National restrictions are still possible but we have had success on a market by market basis, notably Switzerland last year.

33. With the increase in marketing restrictions around the world, what is PM doing to ensure that brand information/communication is passed on to the consumer? (i.e., What is PM doing to maintain its brand value around the world?)

- We market our products in strict compliance with all the laws and regulations established by the governments in the areas of the world in which we do business.

2048300664

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

COMMUNICATIONS

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PM USA

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STEPHEN WOLF
NEW YORK TIMES

COOPERATION WITH PRESS 3

2048300666

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

COMMUNICATIONS

1. Why is PM not more aggressive in defending itself from adverse publicity?

   - In some cases, no comments keeps the story from becoming bigger.
   - There are behind-the-scenes activities with various publications and broadcast outlets. We recently met with the publisher and top editorial members of The New York Times, to discuss overall PM operations.
   - PM has a program involving ongoing outreach between reporters and senior executives.
   - Prior to every major announcement PM holds media briefings with leading newspapers and magazines.
   - The communications departments of all PM operating units provide up to date information to all inquiring reporters.

2. What influence does PM have on matters of public policy or social issues?

   - Responsible companies should make themselves heard on public policy issues.
   - We communicate our points of view, but we don't control the results.

2048300667

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

RESTRUCTURING

3. The restructuring announcement on November 24, 1993 seemed to only emphasize layoffs and after tax charge against earnings. How come there wasn't a discussion of increasing profits by taking costs out of the business?

   - The announcement did mention that the restructuring plan:
     - Significantly reduces our cost structure.
     - Improves future growth, profitability, and cash flow.
     - Is designed to generate after-tax annual savings of about $600 million by 1997.
     - Is expected to provide the company a payback period of around three years.

STEPHEN WOLF

4. You elected a new director to the Board (Stephen Wolf) but we saw nothing in the newspaper.

   - The announcement of Steve's election to the Board did receive press coverage, but it came on the same day as our restructuring announcement.

NEW YORK TIMES

5. What did you think of the New York Times magazine cover story on Philip Morris (March 20, 1994)?

   - Story was thorough, balanced, and fair.
   - Our executives spent a great deal of time and effort educating the reporter on our business and company.
   - We felt it important to cooperate with the New York Times, because PM is proud of its business, its employees, and the communities in which we live and work.

2048300668

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

6. What about the cartoon cover, featuring "Mr. Butts" and the poignant story of Victor Crawford, the tobacco lobbyist who has cancer?

- The New York Times is free to editorialize as it sees fit.
- PM was not consulted on the cover art for the article.
- As for Mr. Crawford's story being included in the article, it was the reporter's choice to do so.
- Certainly sympathetic Mr. Crawford's situation and wish him well.

COOPERATION WITH PRESS

7. What other stories has PM participated in this year?

- PM has been the subject of much coverage this year. Major stories are:

  — Wall Street Journal discussed Miller's booming business

  Note: As of 4/15/94, story had not yet run.

  — "48 Hours" did a segment on Miller's tough decision to close the Fulton NY facility.

  — FORBES talked about PMI's business opportunities in Russia .

- PM is proud of its lines of business, and through our communications offices, works with the press to provide up-to-date information on all inquiries.

2048300669

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

8. Should PM cooperate with the press? Apparently we refused to cooperate with "60 Minutes" on the recent 'fire safe cigarette' program, and look what happened.

- PM receives many daily press inquiries.
- We evaluate each press inquiry on its own merits to determine if it is in our best interests to work with that reporter (it usually is).
- Our objective is to be as responsive as we reasonably can be vis a vis the request and the media.
- Re "60 Minutes," PM did send written answers to their questions; an on-camera interview was not possible. "60 Minutes" did not acknowledge or use the written information PM provided.

2048300670

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

CONTRIBUTIONS

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Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

CONTRIBUTIONS

1. What is PM's charitable contributions policy?
   - Corporate giving program focuses on education, hunger and nutrition, and the arts.
   - Focus has helped improve our already highly respected and distinguished program.
   - Our giving program is based on our desire to:
     — Advance broad social issues.
     — Further our goals as a private corporation.
   - Board of Directors supports our philanthropic initiatives and support grants that help advance our program.

PHIL-PAC

2. How much money did the Philip Morris Political Action Committee (PHIL-PAC) raise in 1993?
   - In 1993, raised $481,213.58. Carried over $49,419.40 from 1992.
   - In 1993, contributed $467,362.24 including contributions to 254 candidates.
   - In 1992, contributed $548,059.33 including contributions to 280 candidates for federal office.

3. How many Democratic and Republican candidates did PHIL-PAC support in 1993?
   - 141 Democrats ($173,673). 113 Republicans ($119,449).
   - Remaining funds to federal and state committees, state and local candidates and operating expenses.

4. Does PHIL-PAC support candidates for presidential office?
   - No.

2048300673

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

5. What was the cost for administration of PHIL-PAC in 1993?

- $118,871 for administrative expenses and solicitations.
- $116,581 for salaries and fringe benefits. (Charged to Corporate Affairs budget, not to PAC.)
- Relative to receipts, above sums are low.
- Average PAC's come in around $1 in receipts for $1 of expense.
- We raise $1 for every 49 cents spent.
- These expenses do not come out of personal contributions.

6. Did PHIL-PAC contribute to Senator Jesse Helms in 1993?

- No.

KGF PAC

7. How much did KGF's PAC contribute to Republicans and Democrats in 1993?

- Total of $16,750, $11,750 to Republicans, $5,000 to Democrats.
- Contributed $8,500 to other committees.

PHILANTHROPIC CONTRIBUTIONS

8. What were our philanthropic contributions in 1993?

- $55,500,000.

9. What percentage of income does that represent?

- 0.78% of domestic pre-tax income
- 0.57% of worldwide pre-tax income.

2048300674

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

10. Does the company use the contributions program to target Black organizations in an effort 'buy' their support?

- No. In the 1930s, PM was among the first companies to hire African Americans for other than "menial" jobs.
- In the 1950s, we began the process of integration of the unions in our southern plants.
- Desegregation of our facilities occurred before the law required it and before other corporations did.
- Financial support for Black organizations dates back to 1944, when senior PM executives supported the United Negro College Fund.
- We support the National Urban League. (Contributions to it and other organizations were made at a time when the company was in last place in our industry and could least afford to provide this financial support. Now, as one of the largest American corporations, we are one of the most active.)

11. Why does PM make substantial contributions to the African-American and Hispanic communities?

- PM markets to a diverse universe of consumers.
- The company supports cultural, educational, social, and health programs that benefit the entire community of our consumers.

2048300475

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

12. How much did the company expend in support of AIDS organizations for 1993?

- Contributed $868,660.
- Since 1990, the company has committed $1.0 million each year to support efforts within these AIDS categories:
  - — Research
  - — Education/Prevention
  - — Care

13. Were contributions made in 1993 to organizations with which members of the Board of Directors are affiliated?

- Yes. (See attached list at end of this section.)

14. How much did the company expend on the arts in 1993, exclusive of charitable contributions to arts programs approved by the Corporate Contributions Policy Committee?

▪ Total Cultural Affairs (includes salaries, fringes & project expenses)	$3,133,962
▪ Total Cultural Advertising	$2,877,349
▪ Total Contributions to the Arts	$13,317,788

2048300676

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

15. Which organizations were the recipients of the largest charitable contribution grant in 1993?

EDUCATION

Foundation for Independent Higher Education (FIHE) **$500,000**
(Teacher Training for Minorities)

HEALTH AND WELFARE

Food Research and Action Center (FRAC) **$1,050,000/3 years**
To expand the Campaign to End Childhood Hunger
(1st payment of $250,000 paid in 1993)

THE ARTS

Brooklyn Academy of Music **$1,500,000/3 years**
To establish the PM Next Wave Forward Fund
(1st payment of $500,000 paid in 1993)

CONSERVATION AND ENVIRONMENT

Federal Focus, Inc. **$200,000**
To collect and analyze data relating to the assessment of costs/benefits of environmental regulations: make information available to public and government officials; develop recommendations.

CIVIC AND COMMUNITY

Citizens for a Sound Economy Foundation **$300,000**
Renewal of general support

MISCELLANEOUS

ETV Endowment of South Carolina **$180,000**
"Technopolitics" series

2048300677

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

16. Has there been an increase in contributions to organizations involving minorities?

- PM contributes to a wide spectrum of charitable organizations and programs intended to help women, African-Americans, Hispanics and other classes.
- Total 1993 contributions to protected classes were $11,045,946, slightly higher than the 1992 total of $11,033,544.
- 1993 contributions to programs intended to help protected classes were:

Physically Challenged	$356,629
Drug/Alcohol	336,990
Elderly	400,280
Minorities	4,371,335
Women	409,466
Veterans	28,500
Total	$5,903,200

- 1993 contributions to minority organizations were $5,142,746.

  (Total contributions to minority organizations were $11,033,544 in 1992 and $4,708,328 in 1991, increase in 1992 due to inclusion of KGF data not available in 1991.)

2048300678

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

17. How much did the company expend on charitable contributions in other areas in 1993?

	($ in millions)
The Arts	$13.6
Civic & Community	5.2
Conservation & Environment	1.2
Education	15.3
Health & Welfare	13.0
Miscellaneous	0.9
Total Grants	$49.2
Matching Gifts	6.3
Total 1993	$55.5

PROJECT AWARENESS

18. Has PM contributed to "Project Awareness"?

- In 1993, we made a $125,000 contribution representing the 3rd and final payment of a 3-year $375,0000 pledge to the Chesterfield County Public Schools.

2048300679

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

DISASTER RELIEF

19. Has the company contributed to disaster relief appeals?

- Yes. The company has an active policy of contributing to disaster relief appeals both domestically and internationally, and budgeted $700,000 in both 1993 and 1994.
- Company contributed $170,000 to disaster relief appeals in addition to product donations (i.e. water shipments) in 1993:

American National Red Cross - Jefferson City, MO	$50,000
American National Red Cross - Sioux Falls, SD	25,000
American National Red Cross - Adams County Chapter Quincy, IL	5,000
American National Red Cross - Loudon County Chapter Lenoir City, TN	5,000
American National Red Cross - Grand Folks, ND	10,000
American National Red Cross - Milwaukee, WI	15,000
City of Petersburg Virginia Tornado Relief Fund Petersburg, VA	25,000
Caritas Relief for Croatia - New York, NY	15,000
Iowa Flood Relief Fund - Des Moines, IA	20,000
TOTAL	**$170,000**

2048300680

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

20. What has PM done for the 1994 California earthquake victims?

- Miller's Irwindale Brewery delivered bottled water to earthquake shelters.
- KGF contributed non-perishable foods.

United Way

21. Have there been any more repercussions from the United Way scandal?

- The new president, Elaine Chao, has implemented a number of policy changes that have eliminated several abuses.
- She has cut the budget by 10%.

22. What percentage of our corporate gift goes to the United Way's member agencies and what percentage goes to administrative costs?

- 84% goes to member agencies.
- 16% goes to administrative costs.

23. Do our dollars go to all the organizations or does the corporation as a whole designate that the dollars not go to The American Cancer Society, American Lung Association, or any other organization that is anti-PM?

- We currently cannot target our corporate gift to the United Way.
- We are working to change this procedure.

24. What if an employee designates that his/her donation be given to an organization that is anti-PM?

- We cannot prevent this from happening.

25. What did we give to United Way in 1993?

- $3,417,121 was contributed in 1993.

2048300681

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

26. How long have we supported United Way?

- Since 1956, PM Companies Inc. contributed a total of $21,905,008 to United Way chapters in our plant communities.
- GF contributions from 1985-88 not included.

KGF CONTRIBUTIONS

27. Does KGF have a charitable foundation?

- Contributions are made through the corporate contributions program similar to the rest of PM Companies.

28. How much money did KGF give to charities in 1993?

- KGF contributed $14,565,000 in cash donations. (This figure is included in the overall $55,500,000 contributions budget for PM Companies Inc.)

29. Does KGF give away product as well as cash?

- Food products are contributed to non-profit organizations.
- Second Harvest National Food Bank Network is used as the vehicle for making in-kind donations.

30. Can you give specifics for KGF's contributions in 1993?

- Hunger and Nutrition $7,301,699
  Education $5,009,712
  The Arts $2,833,393
- KGF also assists non-profit agencies concerned with needs of minorities, women and the handicapped.

2048300682

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

KGFI CONTRIBUTIONS

31. How much does KGFI spend on contributions to charitable organizations?

- Approximately $2 million spent in 1993 from KGFI's operating budget.
- Supports variety of activities including:
  - — Alp Action Program to help reforest Europe's Alps as a result of environmental damage.
  - — International Special Arts Program
- On behalf of Kraft Jacobs Suchard, PM Companies made the following contributions:

Opera House, Bratislava $50,000

For the 1993-94 season and ticket-subsidy out-reach programs

Museum of American Folk Art $75,000

Sponsorship pledge for the international tour of the Swiss Folk Art exhibition to Zurich and Neuchatel. This amount will be sent to the Landes Museum in Zurich, the organizers of the Swiss version of the exhibition.

2048300683

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Retirement Date	Director	Other Directorships
1992	**H. Maxwell** Chairman of the Executive Committee Philip Morris Companies Inc. Training/Experience marketing	America-European Community Association - **$170,000** American Friends of Cambridge University Bankers Trust Company Bankers Trust New York Corporation Foreign Policy Association Institute for Advanced Study New York Public Library - **$75,920** The New York Society for International Affairs, Inc. - **$10,000** The News Corporation Norton Gallery Overseers Cornell University Medical Center

Retirement Date	Director	Other Directorships
1994	**J. A. Cordido-Freytes, Ph.D.** Member Betancourt, Cordido & Associates, Caracas, Venezuela, Attorneys; President C.A. Tabacalera Nacional Training/Experience law, education	None

Retirement Date	Director	Other Directorships
1994	**T. J. Moore, Jr.** Counsel Hunton & Williams Attorneys-at-Law (Formerly Chairman & CEO Dominion Resources, Inc., now retired) Training/Experience law, utilities	Central Fidelity Banks, Inc. Colonial Williamsburg Foundation (Trustee) - **$63,000** Dominion Resources, Inc. Enron/Dominion Cogen Corp. GTE Corporation Richmond Renaissance Incorporated - **$30,000** Virginia Foundation for Independent Colleges (Trustee)

2048300684

Source: https://www.industrydocuments.ucsf.edu/docs/qnfl0000

Retirement Date	Director	Other Directorships
1995	**P. W. Douglas** Retired Chairman & CEO The Pittston Company Training/Experience economics, finance	George C. Marshall Foundation (Trustee) Holmes Protection Group International Center for the Disabled (Trustee) - **$7,500** MacMillan Bloedel Ltd. (Vancouver) New York Life Insurance Company Phelps-Dodge Corporation St. Lukes Roosevelt Hospital (Trustee) United States Trust Corporation & United States Trust Co. of New York

Date	Director	Other Directorships
1996	**H. Brown, Ph.D.** AMAX, Inc. Counselor Center for Strategic and International Studies (CSIS); Partner, Warburg, Pincus and Company (Formerly: Chairman, Foreign Policy Institute The Johns Hopkins University School of Advanced International Studies; U.S. Secretary of Defense; General Partner, Warburg, Pincus & Company) Training/Experience physics, university administration, military research, government	Arnold and Mabel Beckman Foundation California Institute of Technology (Trustee) CBS, Inc. Cummins Engine Co., Inc. Evergreen Holdings, Inc. IBM Corporation Mattel Inc. Rand Corporation (Trustee) Trilateral Commission (North America)

Retirement Date	Director	Other Directorships
1996	**J. M. Richman** Counsel Wachtell, Lipton, Rosen & Katz Attorneys-at-law (Formerly Chairman and CEO) Kraft General Foods) Training/Experience law, food manufacturing, marketing	Continental Bank Corporation Continental Bank N.A. Evanston Hospital Corporation - **$25,000** The Johnson Foundation Northwestern University (Trustee) - **$78,000** R.R. Donnelley & Sons Company USX Corporation

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Retirement Date	Director	Other Directorships
1997	**H. G. Storr** Executive Vice President & Chief Financial Officer Philip Morris Companies Inc. Chairman & CEO Philip Morris Capital Corporation Training/Experience finance, accounting	Chemical Bank (Advisory Board) International Tennis Hall of Fame - **$80,000** (Director & Treasurer) Klingelnberg Corporation

Retirement Date	Director	Other Directorships
1998	**R. E. R. Huntley** Counsel Hunton & Williams (Formerly: President, Washington and Lee University Dean of Law School, Washington and Lee University) Training/Experience law, education, catalog sales	Richmond Renaissance - **$30,000** Sprint Union Theological Seminary (Member, Board of Trustees) Virginia Foundation for Independent Colleges (Trustee) Virginia Historical Society (Trustee) - **$110,000**

Retirement Date	Director	Other Directorships
1999	**J. D. Nichols** Chairman & CEO Illinois Tool Works (Formerly: Executive Vice President and COO Aerojet-General Corp.; Director, Financial Controls ITT Corporation) Training/Experience manufacturing	Argonne National Laboratory Art Institute of Chicago - **$265,000** Business Roundtable Chicago Symphony Orchestra - **$40,000** Household International Corporation Junior Achievement of Chicago - **$100,000** Lyric Opera of Chicago - **$146,000** Museum of Science and Industry - **$55,000** Rockwell International Corporation Stone Container Corporation University of Chicago (Trustee)

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Retirement Date	Director	Other Directorships
2000	**M. H. Bring** Senior Vice President & General Counsel Philip Morris Companies Inc. (Formerly: Senior Partner, Arnold & Porter) Training/Experience law, government	Lawyers' Committee for Civil Rights Under Law - **$12,500** The Legal Aid Society - **$10,000** New York City Opera Co. - **$100,000** New York Law Center Foundation Whitney Museum of American Art (Trustee) - **$137,920**

Retirement Date	Director	Other Directorships
2000	**W. H. Donaldson** Chairman & CEO New York Stock Exchange, Inc. (Formerly: Dean of the Graduate School of Management of Yale University William S. Beinecke Professor in Management Studies Counsel to the Vice President of the United States U.S. Undersecretary of State Co-founder, Chairman and CEO Donaldson, Lufkin & Jenrette, Inc.) Training/Experience finance, education, management, government	Aetna Life & Casualty Co. Business Council of the State of New York Carnegie Endowment for World Peace Council on Foreign Relations Honeywell, Inc. Lincoln Center for the Performing Arts, Inc. - **$350,920** Marine Corps Command & Staff College (Trustee) National Executive Service Corps - **$2,500** New York City Partnership - **$87,500** St. Lawrence University (Trustee)

Retirement Date	Director	Other Directorships
2000	**K. R. Murdoch** Chairman & CEO The News Corporation Limited Training/Experience publishing, motion pictures, television	None

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Retirement Date	Director	Other Directorships
2001	**R. W. Murray** President and COO Philip Morris Companies Inc. Training/Experience finance, accounting, marketing	Alvin Ailey American Dance Theater - **$358,420** American Museum of Natural History - **$10,000** International Tennis Hall of Fame - **$80,000** Polytechnic University (Trustee) - **$31,000** United Negro College Fund - **$1,051,420**

Retirement Date	Director	Other Directorships
2004	**M. A. Miles** Chairman of the Board & CEO Philip Morris Companies Inc. Training/Experience advertising, marketing, fast food	Business Committee for the Arts, Inc. - **$5,000** The Business Council The Business Roundtable The Chicago Council on Foreign Relations The Conference Board (Trustee) - **$51,000** Grocery Manufacturers of America, Inc. J.L. Kellogg Graduate School of Management - **$1,250** Junior Achievement of Chicago - **$100,000** The Lyric Opera of Chicago - **$146,000** National Multiple Sclerosis Society NYC Chapter - **$61,500** New York Chamber of Commerce and Industry New York City Partnership Inc. - **$87,500** President's Advisory Committee for Trade Policy and Negotiations Sears, Roebuck and Company

Retirement Date	Director	Other Directorships
2006	**R. S. Penske** President Penske Corporation; Chief Executive Officer, Detroit Diesel Corporation and Penske Truck Leasing Corporation Training/Experience transportation, automotive technology, retail sales	American Express Company Conner Peripherals, Inc. Henry Ford Museum & Greenfield Village (Trustee) Shearson Lehman Brothers Holdings, Inc.

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Retirement Date	Director	Other Directorships
2007	**E. E. Bailey, Ph.D.** John C. Howard Professor of Public Policy & Management, The Wharton School of the University of Pennsylvania (Formerly: Dean, Graduate School of Industrial Administration, Carnegie-Mellon University; Vice-Chairman, Civil Aeronautics Board) Training/Experience economics, research, teaching	Brookings Institution College Retirement Equities Fund CSX Corporation Honeywell Inc. National Westminster Bancorp Inc. **(Note: $89,500 contributed to The Wharton School.)**

Retirement Date	Director	Other Directorships
2008	**J. S. Reed** Chairman Citicorp and Citibank, N.A. Training/Experience engineering, finance	Americas Society - **$25,000** Center for the Advanced Study in Behavioral Sciences Corporation of MIT (Member) Memorial Sloan-Kettering Cancer Center (Board of Managers) Monsanto Co. National Bureau of Economic Research, Inc. - **$15,000** (Trustee) Rand Corporation Russell Sage Foundation (Trustee) Spencer Foundation

Retirement Date	Director	Other Directorships
2010	**Stephen M. Wolf** Chairman & CEO UAL Corporation & United Airlines (Formerly President and CEO Tiger International, Inc.; President and CEO Republic Airlines; President and COO Continental Airlines Training/Experience airline industry	Air Transport Association of America Alzheimers Disease and Related Disorders Assoc. - **$1,200** Chicago-Cities in School Chicago Council on Foreign Relations Chicago Symphony Orchestra - **$40,000** The Conference Board (Trustee) - **$51,000** Illinois Dept. of Public Aid Project Chance Rush-Presbyterian-St. Luke's Medical Center Seattle Museum of Flight The Business Roundtable ConAgra (Former Director)

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Retirement Date	Director	Other Directorships
2013	**J. Evans** Vice President & General Manager Home & Personal Services Division U.S. West Communications, Inc. Training/Experience marketing, direct mail, retailing	Catalyst - **$20,920** Edison Brothers Stores, Inc. Ladies Professional Golf Association Maidenform Inc. (Advisory Board) The Phoenix Heard Museum Women's Forum Young Presidents' Organization

Retirement Date	Director	Other Directorships
2017	**R. D. Parsons** Chairman & CEO The Dimes Savings Bank of New York, FSB Training/Experience law	Federal National Mortgage Association Howard University (Trustee) - **$28,000** Metropolitan Museum of Art (Trustee) - **$792,000** Rockefeller Brothers Fund Time Warner Inc.

Emeritus Directors

Retirement Date	Chairman Emeritus	Other Directorships
Permanent	**J. F. Cullman 3rd** Chairman Emeritus Philip Morris Companies Inc. Training/Experience business, marketing	African Wildlife Foundation American Museum of Natural History (Trustee) - **$10,000** Atlantic Salmon Federation (U.S.) (Chairman) IBM World Trade Europe (Honorary Director) International Tennis Hall of Fame - **$80,000** (Chairman of Executive Committee) Walt Disney Company (Director Emeritus) World Wildlife Fund - The Conservation Foundation (Chairman Executive Committee) - **$62,500**

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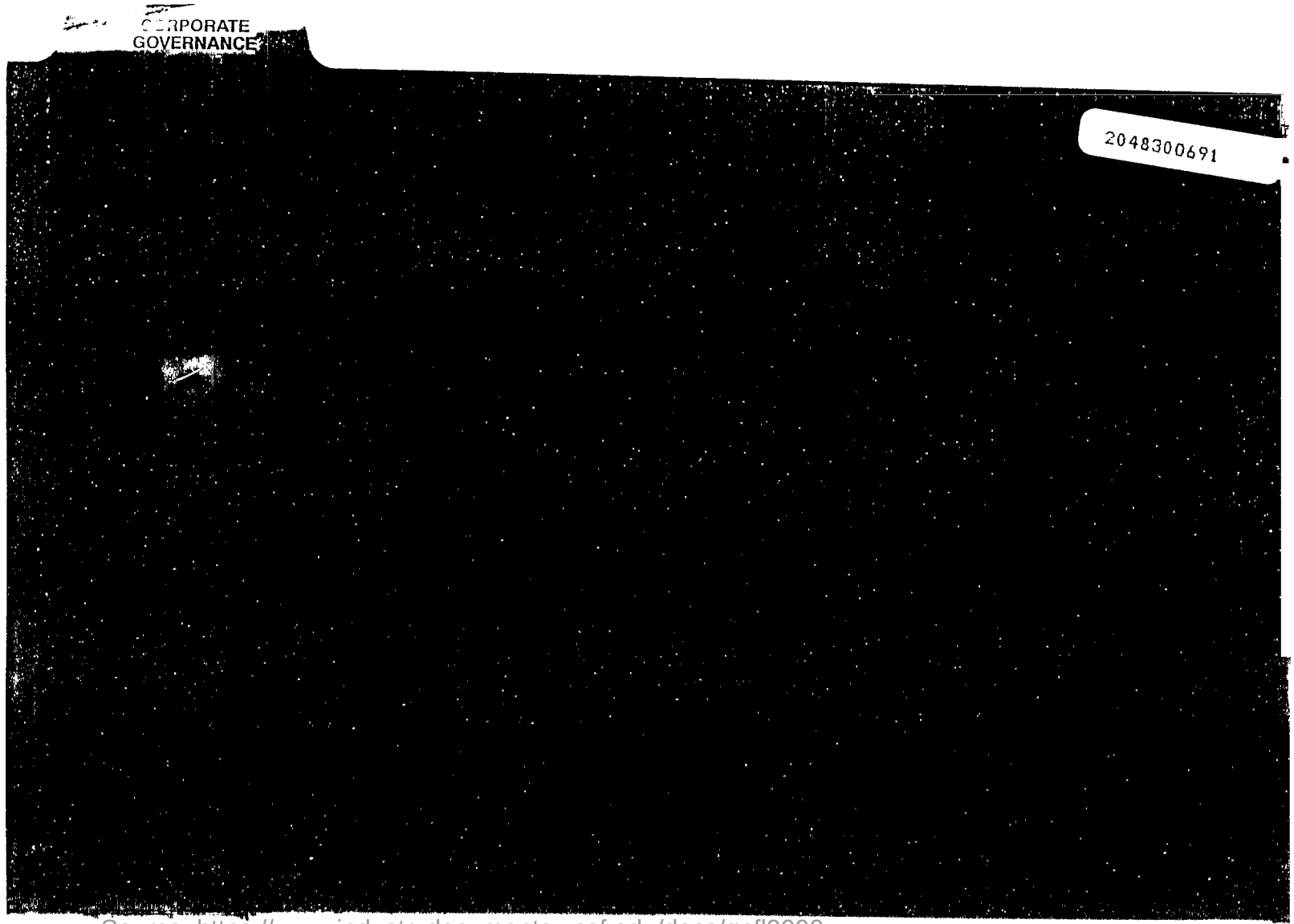

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